

*DRIVING INNOVATION*



**AUTOMODULAR CORPORATION**

*ANNUAL REPORT 2007*



**AUTOMODULAR CORPORATION**  
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## Financial Highlights

	Year ended December 31, 2007 (000s)*	Year ended December 31, 2006 (000s)*
Sales	\$ 99,613	\$ 57,885
Earnings before income taxes	10,828	2,036
Net earnings	7,521	1,527
Net earnings per share	0.33	0.07
Total assets	77,235	57,400
Shareholders' equity	49,606	35,812

\* except for per share data



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## To the Shareholders

Automodular Corporation ("Automodular" or the "Company") had a strong year in 2007 with net earnings of \$7.5 million or \$0.33 per share on sales of \$100 million. The Company ended the year in a net cash position (cash on hand exceeded total debt). During 2007, Automodular brought its Oakville operations into commercial production and is now in the midst of expanding these operations with the addition of a second facility anticipated to begin commercial production in early April, 2008, in support of the new Ford Flex vehicle.

In Oshawa, Automodular has commenced work on its new program to support the new Camaro production scheduled for February, 2009 start up. At the same time, two existing contracts in Oshawa will end this June. Automodular's contract to provide sub-assemblies and sequencing of components for the Chevrolet Silverado and GMC Sierra vehicles will not be renewed and Automodular expects to transfer its assets, facility and personnel to a competitor. Automodular's contract to sub-assemble and sequence components for the Chevrolet Impala also ends this June, and Automodular does not expect this contract to be extended or renewed.

For 2008 as a whole, Automodular expects results somewhat comparable to 2007.

Improved results are foreseen for 2009 as the new Camaro program comes into production and the Oakville expansion reaches full production levels.

On behalf of the directors.

Michael F. Blair [signed]  
President & Chief Executive Officer

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## 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, 2007 and 2006 and should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto. The MD&A discusses our performance and financial condition, provides an update on financial and non-financial developments during the past year and addresses future prospects.

### **BASIS OF PRESENTATION**

Automodular Corporation is 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. References to "Automodular" or to "the Company" refer to Automodular Corporation and its direct and indirect subsidiaries, unless the content indicates otherwise.

### **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 usually quoted 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. Our Company often ships components for each vehicle being assembled on the assembly line – from the very first vehicle to the last. 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 doing the work themselves or awarding the business to one of our competitors.

The demand for our services has greatly increased over the past three years. OEMs are taking advantage of employees accepting buyouts, which enables the OEM to transition business to suppliers and lower its 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. As a result, Automodular is focusing more of its business development efforts on the 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 three GM assembly plants and one Ford assembly plant. We operated approximately 0.6 million square feet of plant space and provided sequencing and sub-assembly services for 1.3 million vehicles in 2007.

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
	Oakville, ON	Ford Edge Lincoln MKX
Car plants	Oshawa, ON	Chevrolet Impala Buick Allure Buick Lacrosse
	Lordstown, OH	Chevrolet Cobalt Pontiac Pursuit / G5

## 2007 OVERVIEW

During 2007, the Company benefited from its significant investments in its Oakville and Oshawa truck operations. As planned, Automodular closed its less complex sequencing operations in Lansing and shut down its last Michigan facility in the third quarter of 2007.

Sales increased from \$57.9 million in 2006 to \$99.6 million in 2007 and resulted in net earnings

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for the year of \$7.5 million or \$0.33 per share compared to net earnings of \$1.5 million or \$0.07 per share in 2006.

Significant events in 2007 included the following:

- Automodular announced that it expected to expand its Greater Toronto area workforce by approximately 375 personnel over the following 18 months to accommodate recent contract awards to sub-assemble and sequence commodities for North American OEMs based in Oshawa and Oakville commencing in 2008 and 2009.
- The Board of Directors approved the adoption of a Performance Share Unit Plan for designated participants in order to promote further alignment of the interests of its senior executives and encourage retention of key executives. Automodular made an initial contribution of \$0.5 million to the Plan.
- Following the early termination of certain contracts, the Company closed its remaining Lansing, Michigan facility on June 30, 2007. A charge of \$0.5 million was recorded with respect to severance, benefit and other exit costs relating to the closure of this facility.
- The Company successfully negotiated a renewal contract with the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") for its Oshawa-area workers. The contract provides improvements in wages and benefits and has a three-year term. The new contract provides the Company with greater cost certainty when bidding on potential new business.
- Automodular entered into a long-term lease for a new facility to accommodate new Oakville-area contract awards and took occupancy in the fourth quarter of 2007.
- The Company completed new bank financing comprising a three-year non-revolving \$7.0 million term loan to help fund previously announced contract awards and a \$10.0 million revolving term facility for general corporate purposes.
- The Company sold 3.9 million common shares at a price of \$2.00 per share for aggregate gross proceeds of \$7.8 million on a bought deal basis pursuant to an underwriting agreement entered into with Scotia Merchant Capital Corporation ("the Selling Shareholder"), GMP Securities L.P. and Canaccord Capital Corporation. The Selling Shareholder also sold 3 million common shares pursuant to the offering. As a result of the Offering, the Selling Shareholder's position in the Company was reduced to 21.3% from 39.9%.

## RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2007 and 2006 are as follows:

<b>(all numbers in thousands)</b>	<b>2007</b>		<b>2006</b>	
	<b>\$</b>	<b>% of sales</b>	<b>\$</b>	<b>% of sales</b>
<b>Sales</b>	99,613	100.0%	57,885	100.0%
<b>Cost of goods sold and other expenses</b>	81,069	81.4%	54,146	93.5%
<b>Exit costs</b>	508	0.5%	919	1.6%
<b>Earnings before the following:</b>	18,036	18.1%	2,820	4.9%
Amortization	6,667	6.7%	2,119	3.7%
Interest expense (income), net	428	0.4%	(119)	-0.2%
Foreign exchange loss (gain)	163	0.2%	(332)	-0.6%
Other income	(50)	0.0%	(884)	-1.5%
	7,208	7.3%	784	1.4%
<b>Earnings before income taxes</b>	10,828	10.8%	2,036	3.5%
<b>Income taxes</b>	3,307	3.3%	509	0.9%
<b>Net earnings for the year</b>	\$ 7,521	7.5%	\$ 1,527	2.6%

### Sales

Automodular's sales increased from \$57.9 million in 2006 to \$99.6 million in 2007.

Canadian operations – Sales increased to \$93 million from \$39.5 million as a result of the Company's Oakville-based operations coming into full production in 2007 as well as the new truck program in Oshawa which hit full production levels at the end of the fourth quarter of 2006. Revenues in the Company's car operations were down slightly due to decreased production levels and unplanned downtime at OEM plants that we service.

US operations – Michigan-based revenues in 2007 were US\$1.7 million (CDN \$1.8 million), which represented a decrease of US\$10.1 million compared to 2006 as a result of the wind down of Michigan based operations. Pontiac operations ceased in June, 2006 and Lansing operations were wound down with the final facility closed June, 2007. Revenues from Ohio-based operations on a US dollar basis were flat year over year and on a CDN dollar basis were \$0.3 million lower as a result of the strengthening of the Canadian dollar.

### Earnings Before Interest, Taxes, Depreciation, 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 as a result of the Company's Oakville-based operations coming into full production in 2007 as well as the new truck program in Oshawa which hit full production levels at the end of the fourth quarter of 2006.

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### **Earnings Before Income Taxes**

Earnings before income taxes increased from \$2.0 million in 2006 to \$10.8 million in 2007 as a result of the Company's Oakville crossover and Oshawa truck operations as previously mentioned. The Oakville operations hit full commercial production during the first quarter of 2007 while the Oshawa truck operations hit full commercial operations during the final quarter of 2006.

### **Amortization**

Amortization increased substantially year over year from \$2.1 million in 2006 to \$6.7 million in 2007. The current year amortization includes amortization of Automodular's capital and start-up costs on its Oakville operations which commenced commercial production in 2007.

### **Interest Expense (Income), Net**

Interest expense (income), net in 2007 was an expense of \$0.4 million compared to interest income of \$0.1 million in 2006. The increase in expense in the current year relates to the expensing of interest on the financing for the Company's Ford Edge/Lincoln MKX programs. In the prior year, the majority of the interest costs incurred were capitalized as pre-production expenditures.

### **Foreign Exchange**

The Company recognized a foreign exchange loss of \$0.2 million in the current year compared to a gain of \$0.3 million in 2006 as a result of the strengthening of the Canadian dollar.

### **Other Income**

Other income decreased from 2006 by \$0.8 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. There were no similar gains in the current year.

### **Income Taxes**

The effective tax provision for both 2006 and 2007 is lower than the effective tax rate of 34% as a result of decreases in future statutory tax rates that have been enacted over the last two years. The Company incurred substantial pre-production costs in 2006 and 2007 which have been written off for corporate income taxes as incurred. The resulting future tax liabilities have been re-calculated using lower tax rates expected to be in effect in the years in which the timing differences are expected to reverse.

## **HISTORICAL ANNUAL DATA**

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Sales	\$ 99,613	\$ 57,885	\$ 79,210
Net earnings	\$ 7,521	\$ 1,527	\$ 11,042
Earnings per share - basic and diluted	\$ 0.33	\$ 0.07	\$ 0.54
Total assets	\$ 77,235	\$ 57,400	\$ 51,328
Total long-term liabilities	\$ 11,610	\$ 4,812	\$ 2,502
Cash dividends per share	\$ -	\$ -	\$ -

### **2007 Versus 2006 Results**

The income statement variances between 2006 and 2007 have been previously discussed. The increase in total assets year over year is primarily a result of capital and pre-production expenditures relating to the launch of the Company's Oakville-based operations. The increase in long-term liabilities represents the

additional funding Automodular secured to help fund the on-going Oakville expansion and future Oshawa-area contract awards.

### 2006 Versus 2005 Results

The decrease in sales between 2005 and 2006 was a result of the non-extension and termination of certain contracts in Lansing, Michigan and Pontiac, Michigan.

Net earnings in 2005 included a gain on the settlement of outstanding litigation. An agreement was reached in the fourth quarter of 2005 to settle outstanding litigation for payment to Automodular of \$11.0 million. There were no similar gains in 2006.

Total assets in 2006 increased by approximately \$6.1 million primarily due to the capitalization of pre-production costs and the purchase of capital assets in Oakville.

### HISTORICAL QUARTERLY DATA – ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$27,721	\$27,050	\$21,941	\$ 22,901	\$17,890	\$17,133	\$10,206	\$12,656
Net earnings	\$1,477	\$2,222	\$1,546	\$ 2,276	\$ 577	\$591	\$199	\$160
Per share (basic and diluted)	\$0.07	\$0.10	\$0.07	\$0.09	\$0.03	\$0.03	\$0.01	\$0.00

In our industry, the first and second quarters of the year typically generate higher earnings than the third and fourth quarters because there are a greater number of non-production days (statutory holidays and in the third quarter generally a two week closure for summer shutdown) in the latter half of the year. However, in 2007 Q1 results were relatively similar to Q3 as a result of our Oakville operations still ramping up to full production levels in Q1. Q4 earnings were inflated as a result of a reduction in the income tax provision of \$0.5 million relating to reductions in future year's statutory tax rates.

### Fourth Quarter (2007)

Similar to the previous three quarters, fourth quarter operating results were substantially better in 2007 than in 2006. In 2006, Automodular had two significant programs – Oakville crossover and Oshawa truck that were ramping up production. In Oshawa, commercial production levels were reached towards the end of the fourth quarter 2006 and in Oakville commercial production levels were not reached until the first quarter of 2007. During the ramp-up phase, Automodular does not generate earnings. In the fourth quarter of 2007 Automodular did not have any programs in the ramp-up phase.

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## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities (all numbers in thousands)

	2007	2006
Net earnings	\$ 7,521	\$ 1,527
Non-cash items	9,213	1,160
Non-cash working capital & purchase of LTIP shares	5,030	(1,867)
Cash from operations	<u>\$ 21,764</u>	<u>\$ 820</u>

The large increase in cash from operations year over year is due to the strong earnings generated from new program launches as previously described, combined with extended payment terms negotiated on certain capital expenditures in relation to the Company's Oakville expansion.

### Investing Activities (all numbers in thousands)

	2007	2006
Purchase of PP&E and pre-production costs (net)	<u>\$ (11,166)</u>	<u>\$ (18,888)</u>

Net purchases of property, plant and equipment and pre-production costs (purchases less proceeds on dispositions) decreased by \$7.7 million. The 2006 figure was driven by the launch of Automodular's Oakville operations. Current year expenditures are in large part due to the current expansion of Oakville operations to accommodate new contract awards.

### Financing Activities (all numbers in thousands)

	2007	2006
Issue of common shares	\$ 7,035	\$ -
Bank indebtedness	(4,919)	4,919
Proceeds from new financing facility	7,000	6,000
Repayment of long-term liabilities	(3,994)	(3,095)
Cash from financing activities	<u>\$ 5,122</u>	<u>\$ 7,824</u>

During the current year, Automodular issued 3.9 million common shares for gross proceeds of \$7.8 million (\$7.0 million after fees and expenses, net of tax) as part of a bought deal as described earlier. The Company also used cash on hand to repay the prior year-end draw on the operating facility of \$4.9 million. An additional \$7.0 million in new financing was obtained from Automodular's primary lender to help fund current year contract awards. In 2006, the Company signed and fully drew on its new \$6.0 million equipment financing agreement to finance capital expenditures related to its new Oakville facility.

### Unused and Available Financing Resources

Automodular's cash and cash equivalents on hand at year-end totaled \$15.6 million compared to bank indebtedness on a book basis at the end of 2006 of \$4.9 million (\$3.5 million excluding outstanding cheques). The Company has a \$10.0 million operating line.

### Off Balance Sheet Financing

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2008 and beyond as disclosed in Note 15 of the consolidated financial statements and as set out in the chart below under "Contractual Obligations Due By Year" are \$32.6 million.

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## Financial Instruments

The Company is committed to an interest rate swap agreement on its new \$7.0 million Canadian credit facility which expires October, 2010. The agreement subjects the Company to a fixed rate of 8.7% and the counterparty to a floating three-month LIBOR rate plus 3.5%.

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

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

	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ 1,535	\$ 1,973	\$ 6,519	\$ 1,000	\$ 688	\$ -
Capital leases	\$ 614	\$ 552	\$ 442	\$ 389	\$ 47	\$ -
Operating leases	\$ 5,709	\$ 5,600	\$ 4,832	\$ 4,641	\$ 3,451	\$ 8,362
Total contractual obligations	\$ 7,858	\$ 8,125	\$ 11,793	\$ 6,030	\$ 4,186	\$ 8,362

## Shareholders' Equity

Shareholders' equity increased from \$35.8 million to \$49.6 million.

The Company's contribution to the key executive long-term incentive plan ("LTIP") of \$0.5 million is included as a reduction in shareholders' equity.

Also included as a separate component of shareholders' equity is a cumulative translation loss of \$6.6 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 the realized gain on the US dollar portion of the purchase financing which has been fully paid off.

## Outstanding Share Data

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

	December 31, 2007		December 31, 2006	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	25,949,233	\$ 49,832	22,049,233	\$ 42,566

At year-end, 120,000 options to purchase common share of the Company were outstanding. Subsequent to year-end, 20,000 options to purchase common shares of the Company expired.

## Related Party Transactions

During the year, the Company paid rent to a company controlled by a former member of the Board of Directors totaling \$538 (US\$501) (2006 - \$1,155 (US\$1,018)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

In October, 2007, the Company secured new financing with The Bank of Nova Scotia ("BNS") which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). The existing BNS credit facilities were amended to include a three-year non-revolving \$7.0 million term loan and a \$10.0 million revolving term facility. At that time, SMCC directly owned 39.9% of the issued and outstanding common shares of the Company. Andrew Brenton and Garth Davis, directors of the Company, were formerly Managing Partner and 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 is being used for general corporate purposes, including the expansion related to the second Ford Program and Oshawa-area contract awards. BNS earned customary banking fees.

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In November, 2007, the Company and SMCC ( "the Selling Shareholder"), entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 3 million common shares from the Company and 3 million common shares from the Selling Shareholder at a price of \$2.00 per share for aggregate gross proceeds to the Company of \$6.0 million and to the Selling Shareholder of \$6.0 million. The Underwriters also had the option, which they exercised, to purchase up to an additional 900,000 common shares from the Company on the same terms and conditions. The net proceeds from the treasury offering will be used by the Company for working capital and general corporate purposes. The Company did not receive any proceeds from the secondary offering by the Selling Shareholder. Each of Mr. Brenton and Mr. Davis declared their interest in the transaction and refrained from voting on the matter.

## **2008 OUTLOOK**

Automodular enters 2008 with a strong balance sheet with cash on hand of \$15.6 million. Recently completed equity and debt financing in conjunction with expected cash flows are expected to provide the Company with sufficient liquidity to carry out its current expansions in Oakville and Oshawa and to quote on additional programs.

Automodular took possession of its second Oakville facility in December, 2007. The new facility allows the Company to support Ford Oakville assembly plant's production of the new Ford Flex which is scheduled to begin commercial production in the second quarter of 2008. While startup and training costs for the new facility will, as expected, negatively impact results in the first half of 2008, management expects that the new plant will make a positive contribution to earnings during the second half of 2008.

Concurrently, Automodular's Oshawa-area management is engaged in preparations for the planned launch in early 2009 of the Chevrolet Camaro vehicle and future vehicles to be built on the same platform. Rearrangement of GM's Oshawa-area assembly facilities will dampen first half 2008 operations but are expected to add materially to results in 2009.

Certain of Automodular's contracts to sub-assemble and sequence components for General Motors of Canada Limited's Oshawa Truck and Oshawa Car plants will end in June, 2008 and not be renewed. Accordingly, Automodular expects to close one of its Oshawa-area facilities in mid-2008. These operations reported revenues totaling \$35 million in 2007 and employ approximately 275 people.

Automodular expects 2008 results from ongoing operations to be comparable to 2007 with an improvement expected in 2009.

Automodular is looking to quote additional complex sub-assembly work in Canada and the United States. The Company is also looking to diversify its operations and is examining potential acquisitions in complementary industries where the existing management team has skills which would be transferable.

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## **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.

### **Changes in Accounting Policies Expected in 2008**

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how

the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Company will begin application of these sections effective January 1, 2008.

These standards will impact the Company's disclosures in future financial statements but will not affect the Company's results or financial position.

### **Disclosure Controls and Procedures**

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. 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.

## **RISK FACTORS**

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. OEMs are susceptible to declines in production volumes as a result of rising interest rates, general economic downturns, rising fuel prices, legislative changes, environmental concerns, emissions and safety issues, labour and/or trade disruptions and other factors.

Increased crude oil and energy prices could reduce global demand for automotive products in general or for particular customer platforms to which the Company

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provides services. There can be no assurance that North American automotive production, whether global or on specific platforms, will not decline in the future or that the Company will be able to utilize any additional capacity it adds in the future. A substantial decline in the production of new North American automobiles in general or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations.

The Company's reliance on its OEM customers makes it susceptible to other risks generally applicable to industry participants, including the extent of OEM outsourcing. The extent of OEM outsourcing is dependent on a number of factors, including the cost, quality and timeliness of external production relative to in-house production by OEMs, technological capability, the degree of unutilized labour capacity at OEM manufacturing facilities, OEM collective bargaining agreements, OEM labour relations and other factors. Any significant decline in OEM production volumes or increase in insourcing of any major production contracts as a result of any of the factors described above could have a material adverse impact on the Company.

Recent labour agreements between North American OEMs and the United Automobile, Aerospace & Agricultural Implement Workers of America International Union (the "UAW") contain terms designed to limit the amount of outsourcing by GM to protect UAW jobs in the United States. These terms are not expected to materially reduce Automodular's growth in sub-assemblies during the term of the respective UAW agreements, but could militate against expansion of the outsourcing of such work in the United States in the longer term. The OEMs' labour agreements in Canada with the CAW expire in 2008 at which time the same issue may be tabled which may have a similar effect on the outsourcing of complex sub-assembly in Canada.

### **Dependence upon Key Customers**

The Company has long-term contracts with GM, GM

Canada, Ford Canada and their various suppliers. The Company's sales depend on a limited number of customers and are entirely dependent on the production volumes of the OEMs for whom it provides services. Accordingly, cancellation of a significant order or the insolvency of any such customers, or reduced sales of vehicles for which we have contracts, could materially and adversely affect the Company's business. In addition, an extended work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers could have a significant impact on the Company's revenues and/or profits. All of the Company's sales are in North America, a sector which has experienced over-capacity, significant competition and "legacy cost" (pension and healthcare liabilities (especially in the United States)) issues. These pressures have contributed to some production losses and pricing pressures for suppliers in the automotive industry.

### **Customer Contracts**

Given the current trends in the automotive industry, the Company is under increasing pressure to absorb costs and provide additional price reductions over and above those already built into contracts. If the Company is unable to achieve savings through cost reduction programs to offset these items, future earnings will be adversely impacted. Contract volumes for customer programs not yet in production are based on estimates of future production levels. However, actual production volumes may vary significantly from these estimates because of a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require that they purchase a minimum volume or value. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the capital and pre-production costs incurred by

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the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

#### **Program Delays**

From time to time, the Company may expand its production capacity through leasing new premises and/or contracting for the construction of new facilities to accommodate the award of new business from the Company's customers. There can be no assurance that the Company will be able to lease new facilities on reasonable terms, if at all. Furthermore, the construction of new facilities also involves a number of areas of operational and financial risks such as construction delays and delays associated with the installation, testing and start-up of new production equipment or manufacturing processes. Since many new facilities are leased and/or constructed to accommodate the launch of new customer production programs, the Company risks delays in program launches if it is unable to lease and/or construct new facilities as required.

#### **Product Warranty, Recall and Liability Risk**

Automobile manufacturers are requesting more and more that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair

or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

#### **Labour Relations Matters**

All of the Company's hourly employees are subject to collective bargaining agreements. To date, the Company has not experienced any material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations.

#### **Dependence upon Key Personnel**

The success of the Company is dependent on the services of a number of the members of its senior management such as the Chief Executive Officer, Vice Presidents and Operations Managers. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. Although the Company engages in succession planning, the loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company maintains key man life insurance on its Chief Executive Officer in the amount of \$5.0 million.

#### **Limited Financial Resources/Uncertainty of Future Financing/ Banking**

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Additional equity financings may result in substantial dilution to existing shareholders.

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## 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.

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 MD&A 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 6, 2008



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## Management's Responsibility For Financial Information

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 years ended December 31, 2007 and December 31, 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 [signed]  
Chief Executive Officer

Christopher S. Nutt [signed]  
Chief Financial Officer

Toronto, Ontario  
March 6, 2008

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## Auditors' Report

### TO THE SHAREHOLDERS OF AUTOMODULAR CORPORATION

We have audited the consolidated balance sheets of **Automodular Corporation** as at December 31, 2007 and December 31, 2006 and the consolidated statements of earnings and shareholders' equity and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2007 and December 31, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

*PricewaterhouseCoopers LLP*

Toronto, Ontario

March 6, 2008

# Consolidated Balance Sheets

as at December 31, 2007 and 2006  
(all numbers in thousands)

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 15,626	\$ -
Receivables (Note 3)	12,563	14,767
Income taxes receivable	-	225
Prepaid expenses	3,509	3,797
	<hr/> 31,698	<hr/> 18,789
<b>Property, plant and equipment (Note 4)</b>	24,079	17,270
<b>Goodwill</b>	9,414	9,414
<b>Other assets (Note 5)</b>	12,044	11,927
	<hr/> \$ 77,235	<hr/> \$ 57,400
<b>Current liabilities:</b>		
Bank indebtedness (Note 6)	\$ -	\$ 4,919
Accounts payable and accrued liabilities	10,386	8,003
Income taxes payable	1,145	-
Current portion of long-term liabilities (Note 7)	2,149	3,767
	<hr/> 13,680	<hr/> 16,689
<b>Future income taxes (Note 11)</b>	2,339	87
<b>Long-term liabilities (Note 7)</b>	11,610	4,812
	<hr/> 27,629	<hr/> 21,588
<b>Contingencies and Commitments (Note 15)</b>		
<b>SHAREHOLDERS' EQUITY</b>	49,606	35,812
	<hr/> \$ 77,235	<hr/> \$ 57,400

Signed on behalf of the Board

Michael F. Blair [signed]

Director

Henry J. Knowles [signed]

Director

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

# Consolidated Statements of Shareholders' Equity and Comprehensive Income

for the years ended December 31, 2007 and 2006  
(all numbers in thousands)

	Capital Stock	LTIP	Contributed Surplus	Other Comprehensive Income*	Retained Earnings (Deficit)	Total	Income
<b>December 31, 2006</b>	\$ 42,566	\$ -	\$ 88	\$ (6,118)	\$ (724)	\$ 35,812	\$ -
Net earnings	-	-	-	-	7,521	7,521	7,521
Foreign Currency Translation	-	-	-	(527)	-	(527)	(527)
LTIP (Note 8 (d))	-	(500)	-	-	-	(500)	-
Shares issued (Note 8(e))	7,266	-	-	-	-	7,266	-
Compensation expense	-	31	3	-	-	34	-
<b>December 31, 2007</b>	\$ 49,832	\$ (469)	\$ 91	\$ (6,645)	\$ 6,797	\$ 49,606	
<b>Total Comprehensive income</b>							\$ 6,994

\*Upon the adoption of CICA Section 1530, "Comprehensive Income", the Corporation recorded a presentational reclassification of the cumulative translation adjustment as "Other Comprehensive Income".

	Capital Stock	Contributed Surplus	Cumulative Translation Adjustment	Retained Earnings (Deficit)	Total
<b>December 31, 2005</b>	\$ 42,566	\$ 82	\$ (5,533)	\$ (2,251)	\$ 34,864
Net earnings	-	-	-	1,527	1,527
Foreign Currency Translation	-	-	(585)	-	(585)
Compensation expense	-	6	-	-	6
<b>December 31, 2006</b>	\$ 42,566	\$ 88	\$ (6,118)	\$ (724)	\$ 35,812

## Consolidated Statements of Earnings

for the years ended December 31, 2007 and 2006  
(all numbers in thousands except share and per share data)

	2007	2006
<b>SALES</b>	\$ 99,613	\$ 57,885
<b>COST OF SALES AND OTHER EXPENSES</b>	81,069	54,146
<b>EXIT COSTS (Note 9)</b>	508	919
<b>EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:</b>	18,036	2,820
Amortization	6,667	2,119
Interest expense (income), net	428	(119)
Foreign exchange loss (gain)	163	(332)
Other income (Note 10)	(50)	(884)
	7,208	784
<b>EARNINGS BEFORE INCOME TAXES</b>	10,828	2,036
<b>INCOME TAXES (Note 11)</b>	3,307	509
<b>NET EARNINGS FOR THE YEAR</b>	\$ 7,521	\$ 1,527
Earnings per share -		
Basic and diluted	\$ 0.33	\$ 0.07
Weighted average common shares outstanding		
Basic	22,613,174	22,049,233
Diluted	22,613,174	22,049,233

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

# Consolidated Statements of Cash Flows

for the years ended December 31, 2007 and 2006  
(all numbers in thousands)

	2007	2006
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net earnings for the year	\$ 7,521	\$ 1,527
Items not involving current cash flows (Note 12)	9,213	1,160
Net change in non-cash working capital (Note 12)	5,530	(1,867)
Purchase of LTIP shares (Note 8(d))	(500)	-
	21,764	820
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and other assets	(11,278)	(20,840)
Proceeds on disposal of property, plant and equipment	112	1,952
	(11,166)	(18,888)
<b>FINANCING ACTIVITIES</b>		
Bank indebtedness	(4,919)	4,919
Issue of common shares	7,035	-
Proceeds from long-term liabilities	7,000	6,000
Repayment of long-term liabilities	(3,994)	(3,095)
	5,122	7,824
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(94)	(13)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	15,626	(10,257)
Cash and cash equivalents, beginning of year	-	10,257
<b>Cash and cash equivalents, end of year</b>	\$ 15,626	\$ -

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

# Notes to Consolidated Financial Statements

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as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

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## 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.

### Future changes in accounting policy

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Company will begin application of these sections effective January 1, 2008.

These standards will impact the Company's disclosures in future financial statements but will not affect the Company's results or financial position.

### New accounting policy

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Company adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening deficit or opening accumulated other comprehensive income as described below. As required by the implementation of these new standards, the comparative Consolidated Financial Statements have not been restated. The principal changes in the accounting for financial instruments and hedging relationships due to the adoption of these accounting standards are described below.

#### *a) Financial assets and financial liabilities*

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis. Transaction costs are recognized immediately in earnings or are capitalized, depending upon the nature of the transaction.

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as trading. These instruments are accounted for at fair value with the change in the fair value recognized in earnings. Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect other-than-temporary impairment. Securities that have a fixed maturity date, where the Company intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. The Company has none of these types of investments at the transition date.

#### *b) Derivatives and hedge accounting*

At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in the hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. All gains and losses from changes in the fair value of derivatives held for trading, or not designated as hedges, are recognized in the statement of earnings. Under the previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value. The method of recognizing fair value gains and losses depends on whether derivatives

# Notes to Consolidated Financial Statements

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as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

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are held for trading or are designated as hedging instruments, and, if the latter, the nature of the risks being hedged.

The Company has an outstanding interest rate swap (See Note 15(b)). This derivative is not designated as a hedge of the interest rate cash flows arising from its long-term debt. Any gain or loss in fair value relating to the hedge is recognized immediately in the statement of earnings in other income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive earnings at that time remains in other comprehensive earnings until the forecasted transaction is eventually recognized in the statement of income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive earnings is immediately transferred to the statement of earnings.

Hedges of net investments in foreign operations are accounted for similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive earnings. The gain or loss relating to the ineffective portion is recognized immediately in the statement of earnings. Gains and losses accumulated in other comprehensive earnings are included in the statement of earnings upon the repatriation or disposal of the investment in the foreign operation. The adoption of the new standards resulted in the reclassification of \$6,118 previously recorded in the foreign currency translation adjustment account to opening accumulated other comprehensive earnings.

### *c) Comprehensive earnings*

Comprehensive earnings is composed of the Company's net earnings and other comprehensive earnings. Other comprehensive earnings includes unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive earnings are disclosed in the consolidated statements of shareholders' equity.

### **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.

### **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.

### **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.

### **Deferred financing costs**

Prior to January 1, 2007, deferred financing costs, which were included in other assets, were amortized on a straight-line basis over the term of the related debt. The amortization of these costs is included as part of Interest and other expenses, net. Upon transition to CICA Section 3855, Financial Instruments – Recognition and Measurement on January 1, 2007, the Company nets any transaction costs against the proceeds from long-term debt instruments classified as Other Liabilities ("OL") and amortizes these costs over the expected life of the instrument using the effective interest method. The amortization amounts are included as interest expense of the related long-term debt instrument and recognized in interest expense (income), net.

### **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.

### **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.

# Notes to Consolidated Financial Statements

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as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

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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 2007. Based on the results obtained, the Company determined no write-down was required.

## **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.

## **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.

## **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 US 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 options or warrants 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 approximates 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 15 (b).

## **3. ECONOMIC DEPENDENCE**

The Company has long-term contracts with General Motors Corporation, General Motors of Canada Limited, Ford Motor Company of Canada,

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

Limited (the original equipment manufacturers or "OEMs") and their various suppliers. The Company's sales are entirely dependent on the production volumes of the OEMs for whom it provides services.

As at December 31, 2007, 88% (2006 - 83%) of trade receivables were due from General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited.

## 4. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land, buildings and leasehold improvements	\$ 4,342	\$ 2,882	\$ 1,460	\$ 3,900	\$ 3,013	\$ 887
Manufacturing equipment	17,821	7,078	10,743	7,340	5,988	1,352
Automotive equipment	600	276	324	693	449	244
Other equipment and furniture	4,686	2,570	2,116	3,383	2,703	680
Open capital projects	9,436	-	9,436	14,107	-	14,107
	<u>\$ 36,885</u>	<u>\$ 12,806</u>	<u>\$ 24,079</u>	<u>\$ 29,423</u>	<u>\$ 12,153</u>	<u>\$ 17,270</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

	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Deferred contract costs	\$ 14,396	\$ 3,297	\$ 11,099	\$ 11,664	\$ 726	\$ 10,938
Pension fund asset (Note 14)	945	-	945	989	-	989
	<u>\$ 15,341</u>	<u>\$ 3,297</u>	<u>\$ 12,044</u>	<u>\$ 12,653</u>	<u>\$ 726</u>	<u>\$ 11,927</u>

## 6. CREDIT FACILITIES

The Company has a revolving credit facility with a limit of \$10,000, which expires October 5, 2010. At December 31, 2007, the Company had not drawn on this facility (2006 - \$3,470, which excluded outstanding cheques). Both the revolving credit facility and the term credit facilities described in Note 7 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, 2007 was 7.8% (2006 - 7.5%).

## 7. LONG-TERM LIABILITIES

	2007	2006
Canadian dollar term credit facility bearing interest at lenders' floating base rate. The effective interest rate for 2007 was approximately 9.4% (2006 - 7.8%). Payments of \$83 are due monthly, maturing August 15, 2012.	\$ 4,667	\$ 5,667
Canadian dollar term credit facility bearing interest at a floating rate, based on LIBOR. The effective interest rate for 2007 was approximately 9.5%. Payments of \$175 are due quarterly commencing June 2008 through September 30, 2009, \$438 quarterly commencing December 31, 2009 through September 30, 2010, maturing October 5, 2010	6,760	-
Capital leases with interest rates ranging from 6.9% to 13.9%, repayable in monthly installments of \$70, with various maturities through 2012, secured by equipment with an original capital cost of \$2,942.	2,332	405
US dollar term credit facility bearing interest at a floating rate, based on LIBOR. The effective interest rate for 2007 was approximately 8.7% (2006 - 8.7%). The balance is denominated in US dollars (US \$ - ; 2006 US \$2,151) and was paid off in October, 2007. Payments of US \$500 were due quarterly.	-	2,507
	13,759	8,579
Deduct: Current portion	2,149	3,767
	<u>\$ 11,610</u>	<u>\$ 4,812</u>

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

Under the terms of the financing arrangements with its bankers, as described in Notes 6 and 7, the Company is required to meet certain financial and other covenants. The Company is in compliance with its financial covenants at December 31, 2007.

Interest expense on long-term liabilities for the year is \$830 (2006 - \$529), of which \$376 was capitalized.

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

2008	\$	2,149
2009		2,525
2010		6,961
2011		1,389
2012		735
	\$	<u>13,759</u>

## 8. CAPITAL STOCK

### (a) Authorized

Unlimited number of common shares.

### (b) Issued - Common Shares

	Number of Shares	Amount
Balance - December 31, 2005 and 2006	22,049,233	\$ 42,566
Share offering (Note 8(e))	3,900,000	7,266
Balance - December 31, 2007	<u>25,949,233</u>	<u>\$ 49,832</u>
Less: treasury stock purchased in connection with LTIP (Note 8(d))	(198,504)	(500)
Net shares outstanding	<u>25,750,729</u>	<u>\$ 49,332</u>

At December 31, 2007, the issued common stock outstanding was reduced by 198,504 shares, representing units purchased in connection with the long-term incentive plan, as described in Note 8(d).

### (c) 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 2006 or 2007. During the year, 129,500 options expired and no options were cancelled.

As at December 31, 2007, 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
February 18, 2003	20,000	\$4.15	February 18, 2008	16,000
July 24, 2003	100,000	\$4.26	July 24, 2008	80,000

### (d) Long-term incentive plan ("LTIP")

On May 10, 2007, the Board of Directors approved the adoption of a Performance Share Unit Plan for Designated Participants of Automodular Corporation and its Subsidiaries (the "Plan"). In order to promote further alignment of the interests of its senior executives and its shareholders and encourage retention of key executives, Automodular will contribute funds to a trustee from time to time for the purchase of shares of Automodular in secondary markets. If performance targets specified annually are met, designated senior executives will become entitled to receive Automodular shares held in trust, subject to the vesting requirements under the Plan.

Automodular made an initial contribution of \$500 to the Plan, in connection with awards under the Plan that will vest on or about December 31, 2010 (subject to earlier vesting in certain circumstances in accordance with the Plan). The entire allotment of shares was purchased by the plan on the open market during the third quarter of 2007. A total of 198,504 shares were purchased for aggregate consideration of \$500 and is shown as a reduction of shareholders' equity.

For accounting purposes, the Plan is a variable interest entity and is consolidated in the accounts of the Company. The related compensation expense will be recorded over the vesting period which commenced during the final quarter of 2007. Compensation expense of \$31 was recognized during the year in respect of awards under this plan. For purposes of calculating weighted average common shares outstanding, shares purchased by the Plan have been excluded. The shares currently issuable under the LTIP are not currently considered dilutive for the earnings per share calculation.

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

## (e) New share issue

During the final quarter of 2007, the Company issued, and sold through public offering, 3,900,000 common shares at a price of \$2.00 per share for total gross proceeds to the Company of \$7,800. Expenses incurred in relation to the offering, net of income taxes, totalled \$534, resulting in net proceeds of \$7,266.

## 9. EXIT COSTS

### 2007

In connection with the cancellation of a contract related to its Lansing operations, a charge for exit costs totaling US \$473 (CDN \$508) was recorded in the second quarter of 2007. These costs relate primarily to severance. 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 charge. There are no amounts remaining in accounts payable and accrued liabilities relating to these costs.

## 10. OTHER INCOME

	<b>2007</b>	<b>2006</b>
Gain on disposal of property, plant and equipment	\$ 50	\$ 884

## 11. INCOME TAXES

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

	<b>2007</b>	<b>2006</b>
Property, plant and equipment and other assets	\$ 4,833	\$ 3,964
Reserves and other temporary differences	(2,494)	(3,877)
	<u>\$ 2,339</u>	<u>\$ 87</u>

(b) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 34.1% (2006 - 34.1%) were the following:

	<b>2007</b>	<b>2006</b>
Earnings before income taxes	\$ 10,828	\$ 2,036
Expected income tax expense at statutory rates	\$ 3,692	\$ 694
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	37	88
Non-taxable portion of capital gains	-	(85)
Changes in tax rates	(524)	(260)
Other	102	72
	<u>\$ 3,307</u>	<u>\$ 509</u>

(c) Provision

The details of the income tax provision are as follows:

	<b>2007</b>	<b>2006</b>
Current provision	\$ 906	\$ 466
Future provision	2,401	43
	<u>\$ 3,307</u>	<u>\$ 509</u>

## 12. CASH FLOW INFORMATION

### (a) Items not involving current cash flows

	<b>2007</b>	<b>2006</b>
Amortization	\$ 6,667	\$ 2,119
Gain on disposal of property, plant and equipment	(50)	(884)
Future income taxes	2,252	78
Stock-based compensation	3	6
Foreign exchange loss (gain)	163	(332)
Pension expense	178	173
	<u>\$ 9,213</u>	<u>\$ 1,160</u>

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

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

	<b>2007</b>	<b>2006</b>
Receivables	\$ 1,951	\$ 1,329
Prepaid expenses	255	699
Accounts payable and accrued liabilities	2,111	(1,371)
Advanced tooling payment	-	(2,026)
Income taxes	1,213	(498)
	<u>\$ 5,530</u>	<u>\$ (1,867)</u>

## (c) Supplemental information

	<b>2007</b>	<b>2006</b>
Interest paid	\$ 924	\$ 535
Income taxes paid	\$ 171	\$ 1,546

## 13. 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 was \$1,131 (2006 - \$751). 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>2007</b>	<b>2006</b>
<b>Total defined benefit pension expense is comprised as follows:</b>		
Defined benefit plan		
Service costs (benefits earned during the year)	\$ 103	\$ 99
Interest costs on accrued benefit obligation	89	81
Expected return on plan assets	(86)	(79)
Amortization of transitional obligations	72	72
<b>Total defined benefit pension expense</b>	<u>\$ 178</u>	<u>\$ 173</u>
<b>Pension fund asset is comprised as follows:</b>		
Market value of plan assets at beginning of year	\$ 2,395	\$ 2,217
Employer contributions	139	30
Actual return on plan assets	32	148
<b>Market value of plan assets at end of year</b>	<u>\$ 2,566</u>	<u>\$ 2,395</u>
<b>Accrued benefit obligations is comprised as follows:</b>		
Obligation at beginning of year	\$ 1,777	\$ 1,601
Service costs (benefits earned during the year)	103	99
Interest costs on accrued benefit obligation	89	81
Actuarial (gain) loss on accrued benefit obligation	(168)	(4)
<b>Accrued benefit obligation at the end of the year</b>	<u>\$ 1,801</u>	<u>\$ 1,777</u>
<b>Funded status at end of year:</b>	\$ 765	\$ 618
Items not recognized in earnings:		
Unrealized transitional obligation	214	286
Unrecognized actuarial gains losses	(34)	85
<b>Pension fund asset</b>	<u>\$ 945</u>	<u>\$ 989</u>

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

	<b>2007</b>	<b>2006</b>
Discount rate	5.25%	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	3 years	4 years

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

Based on the result of an actuarial valuation completed as of December 31, 2007, funding contributions are expected to be \$ - for the year 2008. 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, 2009 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 executive retired during the second quarter of 2005 and is receiving monthly payments of \$5. This obligation is unfunded. The accounts payable and accrued liabilities include \$0.3 million in respect of this obligation.

## 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, 2007 42% (2006 - 41%) of the plan assets at fair value were deposited in the tax account and 58% (2006 - 59%) were invested. The balance invested consists of the following allocations:

	<b>Target</b>	<b>2007 Actual</b>	<b>2006 Actual</b>
Fixed income	40%	43%	37%
Canadian equity	50%	49%	47%
US equity	5%	0%	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.

## 14. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent to a company controlled by a former member of the Board of Directors totaling \$538 (US\$501) (2006 - \$1,155 (US\$1,018)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

In October, 2007, the Company secured new financing with The Bank of Nova Scotia ("BNS") which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). The existing BNS credit facilities were amended to include a three-year non-revolving \$7,000 term loan and a \$10,000 revolving term facility. At that time, SMCC directly owned 39.9% of the issued and outstanding common shares of the Company. Andrew Brenton and Garth Davis, directors of the Company, were formerly Managing Partner and 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 is being used for general corporate purposes, including the expansion related to the second Ford Program and Oshawa-area contract awards. BNS earned customary banking fees.

In November, 2007, the Company and SMCC ("the Selling Shareholder"), entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 3 million common shares from the Company and 3 million common shares from the Selling Shareholder at a price of \$2.00 per share for aggregate gross proceeds to the Company of \$6,000 and to the Selling Shareholder of \$6,000. The Underwriters also had the option, which they exercised, to purchase up to an additional 900,000 common shares from the Company on the same terms and conditions. The net proceeds from the treasury offering will be used by the Company for working capital and general corporate purposes. The Company did not receive any proceeds from the secondary offering by the Selling Shareholder. Each of Mr. Brenton and Mr. Davis declared their interest in the transaction and refrained from voting on the matter.

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"). At that time, SMCC directly owned 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 Company's new program for Ford Motor Company of Canada Limited in Oakville, Ontario. Repayment terms and interest rates are described in Note 7. Roynat Inc. earned customary banking fees in relation to this transaction.

## 15. 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.

# Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006  
(all numbers in thousands except share and per share amounts)

Commitments are denominated in both Canadian and US dollars. US dollar denominated commitments disclosed below have been translated into the Canadian dollar equivalent.

	<b>US</b>	<b>CDN</b>	
	<b>Denominated</b>	<b>Denominated</b>	<b>Total</b>
2008	\$ 640	\$ 5,069	\$ 5,709
2009	640	4,960	5,600
2010	-	4,832	4,832
2011	-	4,641	4,641
2012	-	3,451	3,451
Thereafter	-	8,362	8,362
	<u>\$ 1,280</u>	<u>\$ 31,315</u>	<u>\$ 33,875</u>

## (b) Interest Rate Swap Agreement

The Company is committed to an interest rate swap agreement, which expires October, 2010, on its Canadian dollar denominated term debt of \$7,000 (see Note 7). The agreement subjects the Company to a fixed rate of 8.7% and the counterparty to a floating three month LIBOR rate plus 3.5%. As at December 31, 2007, the estimated fair value of this agreement, which was calculated using year-end market rates, was \$1. The Company currently has no plans to unwind this position prior to maturity.

## (c) 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.

## 16. SEGMENTED 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.

	<b>2007</b>		<b>2006</b>	
	<b>Sales</b>	<b>PP&amp;E and Goodwill</b>	<b>Sales</b>	<b>PP&amp;E and Goodwill</b>
Canada	\$ 93,050	\$ 33,317	\$ 39,456	\$ 26,314
United States	6,563	176	18,429	370
	<u>\$ 99,613</u>	<u>\$ 33,493</u>	<u>\$ 57,885</u>	<u>\$ 26,684</u>

## 17. SUBSEQUENT EVENTS

The Company was informed by General Motors Corporation that certain of Automodular's contracts to sub-assemble and sequence components for the Oshawa Truck and Oshawa Car plants will end in June, 2008 and not be renewed. Accordingly, the Company expects to close one of its Oshawa-area facilities in mid-2008. These operations reported revenues totaling \$35,000 in 2007 and employed approximately 275 people. In situations such as these, both the OEM and the new supplier want to facilitate a smooth transition of the contracts addressing items such as facility, equipment and labour issues. Until this and other factors are addressed, it is not possible to determine what if any costs there will be to Automodular as a result of the expiry of the contracts.

## Investor Information

### COMPARATIVE DATA

	Dec. 31 2007	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003
<b>Operations (\$000s)</b>					
Sales	99,613	57,885	79,210	93,537	107,909
Net earnings (loss)	7,521	1,527	11,042	(10,445)	3,745
Cash flow from operations	21,764	820	14,518	2,991	6,377
<b>Financial (\$000s)</b>					
Total assets	77,235	57,400	51,328	36,039	53,804
Long-term debt	11,610	4,812	2,502	122	9,216
Shareholders' equity	49,606	35,812	34,864	22,145	34,590
Return on average shareholders' equity (%)	17.6	4.3	38.7	(36.8)	10.5
<b>Per share (\$)</b>					
Net earnings (loss)	0.33	0.07	0.54	(0.55)	0.20
Weighted average number of shares outstanding (000s)	22,613	22,049	20,611	19,049	18,924

### QUARTERLY DATA (\$000s)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	22,901	21,941	27,050	27,721	12,656	10,206	17,133	17,890
Amortization	1,664	1,654	1,635	1,714	553	517	543	506
Net earnings	2,276	1,546	2,222	1,477	160	199	591	577

### COMMON SHARE PRICES

#### Calendar year

	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000s)
<b>2007</b>			
Fourth quarter	2.35	1.65	2,519
Third quarter	2.72	1.95	422
Second quarter	2.45	1.90	378
First quarter	1.90	1.50	28
<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



## Corporate Information

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### SOLICITORS

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President & Chief Executive Officer

Andrew Brenton  
Chief Executive Officer  
Turtle Creek Group

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Managing Partner  
Turtle Creek Private Equity

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Business & Financial Consultant

R. Peter McLaughlin  
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Greenbriar Holdings Limited

James Rodgers  
President  
Cames Consulting Inc.

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

### 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 MEETING OF SHAREHOLDERS WILL BE HELD IN ROOMS A and B  
OF THE TORONTO BOARD OF TRADE DOWNTOWN CENTRE  
1 FIRST CANADIAN PLACE TORONTO ONTARIO  
ON THURSDAY MAY 8, 2008 AT 11:00 A.M.**

**ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.**

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**AUTOMODULAR CORPORATION**

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