



AUTOMODULAR CORPORATION

AUTOMODULAR CORPORATION

ANNUAL INFORMATION FORM
for the year ended December 31, 2008

March 25, 2009

AUTOMODULAR CORPORATION
CONTENTS OF AIF

1.	GENERAL INFORMATION	4
2.	CORPORATE STRUCTURE	5
2.1	Name, Address and Incorporation	5
2.2	Intercorporate Relationships	5
3.	GENERAL DEVELOPMENT OF THE BUSINESS	6
3.1	Three Year History	6
4.	NARRATIVE DESCRIPTION OF THE BUSINESS	10
4.1	General	10
4.2	Business of Subsidiaries	11
4.2.1	Automodular Corporation	11
4.2.2	Automodular Assemblies Inc.	12
4.2.3	Automodular Assemblies (DE) Inc.	13
4.2.4	Tec-Mar Distribution Services, Inc.	13
4.2.5	Automodular Assemblies (Ohio) Inc.	14
4.3	Sales	14
4.4	Principal Properties	14
4.5	Employees	15
4.6	Competitive Conditions	15
4.7	Economic Dependence	17
4.8	Changes to Contracts	17
4.9	Cyclicality	17
4.10	Foreign Operations	17
4.11	Risk Factors	17
4.12	Outlook	18
5.	DIVIDEND POLICY	18
6.	DESCRIPTION OF CAPITAL STRUCTURE	18
7.	MARKET FOR SECURITIES	19
8.	DIRECTORS AND OFFICERS	19
8.1	Name, Occupation and Group Security Holdings	19
8.2	Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions	21
8.3	Conflicts of Interest	23
9.	LEGAL PROCEEDINGS	23
10.	INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	23
11.	TRANSFER AGENTS AND REGISTRAR	24
12.	MATERIAL CONTRACTS	24
13.	INTERESTS OF EXPERTS	25

14. AUDIT COMMITTEE DISCLOSURE 25
14.1 Composition of the Audit Committee..... 25
14.2 Independence and Reliance on Exemption 26
14.3 Relevant Education and Experience 26
14.4 External Auditor Service Fees (by Category)26

15. ADDITIONAL INFORMATION 27

Schedule A 28

1. GENERAL INFORMATION

Unless otherwise indicated, the information contained in this Annual Information Form is current as of March 25, 2009. All amounts are in Canadian dollars unless otherwise indicated.

This Annual Information Form contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or performance, or our underlying assumptions. Words such as "may", "would", "could", "will", "likely", "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 (collectively "**GM**") and Ford Motor Company ("**Ford**");*
- *new program launch risks and other changes in the business environment in which we operate.*

Persons reading this Annual Information Form 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.

2. CORPORATE STRUCTURE

2.1 Name, Address and Incorporation

Automodular Corporation ("**Automodular**", the "Company" or the "**Corporation**") is a corporation under the laws of Ontario pursuant to articles of amalgamation dated January 1, 2008. On such date, Automodular amalgamated (the "**Amalgamation**") with its wholly-owned subsidiary, Automodular Assemblies Inc. ("**AAI**"). The articles of amalgamation were in substance the articles of the parent corporation as they existed immediately prior to the Amalgamation. Originally, Automodular was incorporated by letters patent under the laws of Ontario on May 7, 1957 as Algonquin Building Credits Limited. By Articles of Amendment dated December 3, 1976, the name was changed to Algonquin Mercantile Corporation and by Articles of Amendment dated June 4, 2001, the name was changed to Automodular Corporation. Automodular is governed by the *Business Corporations Act* (Ontario) for corporate law purposes and is a reporting issuer in each of the provinces and territories of Canada except Quebec.

At the date of this Annual Information Form, the head and registered office of Automodular is located in Toronto, Ontario. The mailing and electronic addresses, facsimile and telephone numbers are as follows:

20 Toronto Street, Suite 420, Toronto, Ontario M5C 2B8

Telephone: (416) 861-0662 Fax: (416) 861-0063

website: <http://www.automodular.com>

e-mail: invest@automodular.com

Effective, April 1, 2009 the head and registered office of Automodular will be located in Ajax, Ontario. The mailing address, facsimile and telephone numbers will be as follows:

235 Salem Road, Unit 6, Ajax, Ontario L1Z 0B1

Telephone: (905)619-4200 Fax: (905)619-9466

The website and e-mail addresses remain the same.

2.2 Intercorporate Relationships

Effective January 1, 2008, the Corporation had only two subsidiaries, both of which were wholly-owned, directly or indirectly, and both of which were organized in the United States of America. (Automodular and its subsidiaries are sometimes collectively referred to herein as the "**Company**"). Only one of the subsidiaries currently carries on operations (see below). Upon the amalgamation, the Corporation commenced carriage of the business formerly carried on by its Ontario wholly-owned subsidiary, AAI. The corporate structure of the Company, effective as at January 1, 2008, is described on the following page:

<u>NAME</u>	<u>INCORPORATION / AMALGAMATION</u>	<u>OWNERSHIP</u>	<u>NATURE OF BUSINESS⁽²⁾</u>
Automodular Corporation	<i>Business Corporations Act</i> (Ontario)	Publicly owned	The supply of modular sub-assemblies and sequenced components to GM in Oshawa, Ontario (carried on by AAI until the amalgamation on January 1, 2008), and to Ford in Oakville, Ontario. Automodular also provides management services to the Company
Tec-Mar Distribution Services, Inc. ⁽¹⁾ ("Tec-Mar")	<i>Act 284, Public Acts of 1972</i> (Michigan)	100% owned by Automodular	Until June 30, 2007, the supply of modular sub-assemblies and sequenced components to GM in Lansing, Michigan
Automodular Assemblies (Ohio) Inc. ("AAI(OH)")	Delaware General Corporate Law <i>DEL. C. Section 101-398</i> (Delaware)	100% owned by Tec-Mar	The supply of modular sub-assemblies and sequenced components to GM in Lordstown, Ohio

(1) Tec-Mar was formed by the amalgamation effective December 31, 2004 of Tec-Mar Distribution Services, Inc., a Michigan corporation, and its parent corporation, Automodular Assemblies (DE) Inc., a Delaware corporation. Both predecessor corporations were indirect wholly-owned subsidiaries of Automodular prior to such amalgamation. Effective June 30, 2007, Tec-Mar no longer operated in Michigan.

3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 Three-Year History

The following is a summary of significant events during the preceding three years of the Company.

2008 Developments

While demand for the Company's services increased in 2006 and 2007, this was reversed in 2008 as a result of the significant reductions in North American vehicle production volumes due to a drop in consumer demand. The Company's Oakville operations directly supply Ford. The Company's Oshawa-area operations directly and indirectly supply GM. The company's Oshawa-area operations were particularly adversely affected. Nevertheless, the first fiscal quarter of 2008 witnessed some positive events.

At the beginning of 2008, Automodular added a second Oakville facility to accommodate a new Ford vehicle - the Ford Flex - which started commercial production in the second quarter of the year. Also in the first quarter of 2008, Automodular's Oshawa facility started work on its new program to support the new GM Chevrolet Camaro vehicle with start of production scheduled for the first quarter of 2009. In the first quarter, the Company successfully negotiated

a renewal contract with the United Auto Workers Union (“**UAW**”) for its Ohio workers. The contract provided improvements in wages and benefits through to December 31, 2009, was secured without any labour disruption and was seamless to our customer, GM.

Automodular’s Oshawa truck operations were negatively impacted by the reduction from three shifts to two shifts effective January, 2008 and by a strike at one of GM’s suppliers which resulted in production down-time of seven weeks for two of our Oshawa-area facilities. Oshawa car operations were affected by the elimination of certain car platforms and the consolidation of the two Oshawa car plants into one at the end of 2007.

In June, 2008 Automodular took occupancy of an administrative office in Ajax, Ontario, close to its Oshawa car and truck operations, with a view to making it the head office of the Company in 2009.

On June 16, 2008, Automodular announced that certain of its contracts with GM’s Truck Plant that had been expected to expire on June 30, 2008 had been extended for the remainder of the existing truck program and would end production in the second quarter of 2009. Certain contracts relating to car and truck programs expired at the end of June, 2008 and, as a result, approximately 120 employees were laid off and a charge of \$0.6 million was recorded relating to these layoffs.

During the second quarter, Automodular received the Q1 Award from Ford for its first Oakville facility. The Ford Q1 Award indicates that Automodular is recognized as a preferred supplier to Ford and represents certifications and enhancements beyond the industry’s standard requirements.

On August 7, 2008, the Directors of the Corporation declared a dividend of \$0.03 per share payable September 30, 2008 to shareholders of record September 16, 2008.

Automodular announced at the end of the third quarter 2008 that it no longer expected 2008 earnings to be comparable with 2007 earnings. This was a result of the cancellation of the third shift of production in its Oakville operations coupled with additional fourth quarter downtime across its Ontario operations. It was also announced that, as low demand for cars and trucks was likely to persist for several quarters and result in further downtime across Automodular’s operations, Automodular could not reasonably predict sales or profits for its operations in the near term.

In the third quarter, Automodular’s Oshawa truck operations for GM were further reduced from a two-shift to a one-shift operation. As a result of the reduction, approximately 75 more employees were laid off and a pre-tax charge of \$0.4 million was recorded relating to those layoffs.

During the third quarter, Automodular contributed an additional \$0.5 million to its Performance Share Unit Plan for senior executives established in 2007 (see “*2007 Developments*”).

On November 12, 2008, the Directors declared a dividend of \$0.03 per share payable December 30, 2008, to shareholders of record December 16, 2008.

Throughout 2008, Automodular was engaged with the installation of capital equipment and in the pre-production process for the new Chevrolet Camaro in Oshawa and the new Lincoln MKT in Oakville, with commercial production scheduled for 2009. These programs were awarded to Automodular in 2007.

2007 Developments

2007 was a strong year for the Company as it realized on the significant investments it had made in both its Oakville and Oshawa-area operations in 2005 and 2006. The Company's Ontario operations continued to expand in 2007. During the first half of 2007, Automodular announced two new contract awards relating to GM and Ford vehicle launches that were expected to increase its Oshawa and Oakville-based workforces by approximately 375 persons over the following twelve months. These vehicle launches were scheduled to occur in the spring of 2008 and 2009. In connection with these new launches, Automodular expected to expend approximately \$25 million in capital and start-up costs, of which \$11 million was spent by the end of 2007.

In support of the above-mentioned programs, Automodular finalized a debt financing with its bankers which provided for a three-year, \$7 million non-revolving term facility and a revolving term facility of \$10 million (increased from \$7.5million). The Company also entered into a \$1.9 million capital lease to finance certain assembly equipment.

In its human resources and labour matters during the second quarter of 2007, Automodular adopted a Performance Share Unit Plan for designated participants of the Corporation and its subsidiaries in order to promote further alignment of the interests of its senior executives and its shareholders. Automodular contributes funds to a trustee from time to time for the purchase of Automodular shares in secondary markets and designated participants will become entitled to receive Automodular shares should pre-specified annual performance targets be met. For 2007, Automodular contributed \$0.5 million to the plan.

During the third quarter of 2007, the Corporation entered into a long-term lease for a new 148,100 square foot facility in Oakville to accommodate the new contract award in Oakville described above. The lease runs to December 31, 2012 at an annual cost of approximately \$1 million and Automodular took occupancy in December, 2007. On the other hand, the Company's United States operations were further reduced in 2007. Automodular ceased operations in Lansing, Michigan at the end of June, 2007 and relinquished its last remaining Michigan operating facility to the landlord in the third quarter. Its only United States operations are now based in Lordstown, Ohio.

In the third quarter of 2007, Automodular reached agreement on a renewal contract for its Oshawa-area workers with the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("**CAW**"). The new contract has a three-year term.

The Company completed the year with a successful share offering. In the fourth quarter of 2007, Automodular and its largest shareholder, Scotia Merchant Capital Corporation ("**SMCC**") entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Cannacord Capital Corporation, pursuant to which the underwriters agreed to purchase on a bought deal basis, 3 million treasury common shares from Automodular and 3 million common shares from SMCC at a price of \$2.00 per share. The underwriters exercised an

option granted by the Corporation to purchase an additional 900,000 treasury common shares. Gross proceeds to SMCC from its secondary offering were \$6 million. The Corporation received gross proceeds of \$7.8 million for the 3.9 million common shares issued.

At the end of 2007, Automodular decided to streamline its corporate structure and to implement a vertical amalgamation with its only Canadian subsidiary, AAI. The Amalgamation had a legal effective date of January 1, 2008.

2006 Developments

The Company achieved success on a number of fronts in 2006 although it was impacted by industry and program risk and experienced downtime and volume adjustments in its operations as North American Original Manufacturers (“**OEMs**”) continued to balance inventory levels.

In March, 2006 the Company was informed by GM that it was unsuccessful in its bid for an expansion of its Pontiac, Michigan operations and, in accordance with the terms of the bid, would cease to operate in Pontiac in mid-2006. Automodular negotiated a transition agreement with the successful supplier that addressed facility, labour and capital asset issues. The Pontiac operations reported revenues totaling approximately \$15 million (US\$12 million) during 2005 and employed 180 people.

In the first quarter, the Company signed a \$6 million equipment financing agreement to facilitate the purchase of capital assets required for the new Ford program. This facility is being repaid over a six-year term at an interest rate of approximately 8%. Funds were fully drawn in the third quarter.

In the second quarter, AAI(OH) was advised by GM that operations at its Ohio facility would be reduced from a three-shift to a two-shift operation during the third quarter.

In June, 2006, Automodular’s Board of Directors elected to change the Company’s auditors to PricewaterhouseCoopers LLP, subject to shareholder approval. At the Special Meeting of Shareholders held in August, 2006, shareholder approval was received.

On June 19, 2006, Automodular reached agreement with the CAW on a first contract for its Oakville-area workers. The contract was for a three-year term.

At the end of September, AAI launched a new GM truck program at its Oshawa facilities. Full production levels were reached in the fourth quarter.

At September 30, 2006, Automodular was in breach of one of its banking covenants as a result of the closure of its Pontiac, Michigan operations and weaker volumes in both Oshawa, Ontario and Michigan car operations. In June, 2006, the Company had closed its Pontiac, Michigan facility incurring \$0.9 million (US\$0.7 million) in closeout costs which were essentially offset by gains from the disposition of redundant assets. Subsequent to the third quarter end and prior to year end, the lender waived the covenant breach.

In October, 2006, Automodular commenced production at its new 260,000 square foot Oakville leased facility. At this facility, Automodular sub-assembles and sequences engines, suspension and instrument panel modules for the new Ford Edge and Lincoln MKX vehicles being produced in Ford’s new flexible assembly complex in Oakville, Ontario. Automodular had taken

occupancy of its new Oakville facility in February, 2006, and assembly lines had been installed during the first fiscal quarter. Substantially, all equipment had been installed and pre-production builds and training were underway by the end of the second quarter. This operation currently employs approximately 475 personnel.

In December, Automodular received an unsolicited offer of interest from a major auto parts supplier to combine its North American operations with those of the Company and to acquire control of Automodular. A meeting of the Board of Directors was held and a committee of independent directors formed to review the proposal and report back to the Board. The offer of interest was subsequently declined on the basis that it would not be in the best interests of the Corporation or its shareholders.

At the end of the fourth quarter, Automodular renegotiated its credit agreement with its banker. The amendment increased Automodular's available credit facilities by \$3 million to \$8 million, reducing at June 30, 2007 to \$7.5 million. (These facilities were renewed and increased in October, 2007 as described under "2007 Developments" above).

4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 General

Automodular is engaged, both directly and indirectly (through its Ohio subsidiary), in the sequencing and sub-assembly of modules of automobile parts for installation in cars and trucks being assembled by its customers. Sequencing means that the sub-assembled modules, such as an instrument panel or a radiator support, arrive at the customer's final assembly plant in precisely the sequence of their final installation in each vehicle and at precisely the time they are to be installed.

Automodular's operating mission statement is *"to be the world class assembler and sequencing operation to the automotive manufacturers"*. The Company strives to meet or exceed its customers' expectations and to be competitive through continuous improvement. The Company's goal is zero defects.

Automodular's core values reflect its commitment to this mission statement. They include the following:

- highest quality in all aspects of the Company's business
- teamwork
- commitment to customer satisfaction
- respect for the individual
- continuous improvement
- long-term growth and profitability

From its head office in Toronto, Ontario, Automodular provides management services to its subsidiaries in the form of administrative, financial, banking, treasury and insurance services as well as strategic and corporate planning and development.

The Company is a supplier of sub-assembly, sequencing, transportation and logistics services to four OEM plants in Ontario and Ohio. The Company had five operating facilities, employed

approximately 650 people and provided sequencing and sub-assembly services for 1 million vehicles in 2008.

The Company provides services for the following platforms:

Truck plants:	Oshawa, ON	Chevrolet Silverado GMC Sierra
	Oakville, ON	Ford Edge Lincoln MKX Ford Flex
Car plants:	Oshawa, ON	Chevrolet Impala Chevrolet Camaro
	Lordstown, OH	Chevrolet Cobalt Pontiac G5

Prior to 2005, the Company operated almost exclusively as a Tier 2 supplier to GM but then in 2005, the Company was awarded a major business contract by Ford.

All of the Company's business is contract business. It is asked to bid on contracts by Tier 1 suppliers or by OEMs directly. Contracts are usually quoted on and awarded prior to the launch of a vehicle and are typically for three to five years but some are for terms as long as eight years. The Company usually bids on contracts to sub-assemble particular commodities for particular vehicles at a time prior to the launch of the vehicle design. Automodular and its subsidiaries typically do not take title to any materials incorporated into their assemblies; the Company has responsibility for process design but not parts design.

The Company is an integral part of the supply chain and fundamental to the final assembly plant which it serves. The Company often ships components for each vehicle being assembled on the assembly line – from the very first vehicle to the last. The Company receives orders every five seconds and ships completed assemblies within two hours of receiving the respective orders. Given the tight timeline, the Company's plants are generally located within 20 km of the assembly plants and the Company is an integral part of the OEM supply chain and fundamental to the cost efficient final assembly of vehicles. The Company must deliver modules that meet the quality requirements of its customers; it must deliver them on time, every time; and it must deliver them at a cost that makes it more profitable for its customers to use its services than to do the same work themselves.

Growth for the Company comes primarily from new contracts and therefore comes in "lumps".

4.2 Description of Business of Corporation

4.2.1 Automodular Corporation

Automodular's role in the Company's operations prior to 2005 was to provide management services to its subsidiaries in the form of administrative, financial, banking, treasury and insurance services as well as strategic and corporate development. In 2005, the Company was awarded a contract by Ford to provide sub-assembly services for vehicles assembled at Ford's

Oakville plant. This was the first Ford contract in the Company's history. Automodular chose to transact the Ford business directly and leased a 260,000 square foot facility in Oakville, Ontario for this purpose. In 2007, Automodular won additional Ford contracts and commenced to expand its operations in Oakville. Effective upon the Amalgamation on January 1, 2008, Automodular commenced carrying on the GM business formerly carried on by AAI (see description below under AAI). Automodular now conducts all the Canadian operations of the Company.

The Ford contracts are for the sub-assembly and sequencing of complex modules for Ford's new cross-over utility vehicles – the Ford Edge and Lincoln MKX and Ford Flex – built at Ford's new flexible manufacturing facility.

The Ford contracts required Automodular to expend approximately \$22 million in capital and pre-production costs in 2006 and 2007, which were financed by an increase to existing credit facilities and new equipment financing arrangements coupled with cash on hand. (See "*2006 and 2007 Developments*" for details). Capital and pre-production costs are built into the variable piece price and are expected to be recovered from cash from operations. Automodular took occupancy of its first Oakville facility in the first quarter of 2006 and commenced production in October, 2006. Commercial production levels (full two-shift production levels) were reached in the first quarter of 2007.

In order to accommodate additional Ford Oakville-area contract awards, Automodular entered into a long-term lease for a new facility in Oakville. The Company took occupancy of this second facility in the fourth quarter of 2007 and commercial production commenced in the second quarter of 2008.

4.2.2 Automodular Assemblies Inc.

On January 1, 2008 AAI amalgamated with its parent, Automodular Corporation, which assumed carriage of the business formerly carried on by AAI. The following is a description and history of the business as carried on by AAI until December 31, 2007.

Effective October 31, 1997, the Corporation acquired 100% of AAI, a privately-held company which supplied modular sub-assemblies to GM's Oshawa car and truck operations.

Until the amalgamation, AAI continued to supply the Oshawa car and truck operations of GM. In January, 2002, AAI relocated production to its new 183,000 square foot sequencing facility in Whitby (Montecorte Street), Ontario from two of its Pickering, Ontario plants. In March, 2004, GM announced that it would not extend its purchase order for certain commodities sequenced for GM by AAI at AAI's remaining Pickering plant. The purchase order expired in June, 2004 and the last Pickering plant was closed in the fourth fiscal quarter 2004. The lease for this Pickering plant expired at the end of 2004.

In May, 2004, AAI received an order from GM to sub-assemble and sequence cockpit modules for the Chevrolet Impala and Monte Carlo vehicles produced at the GM Oshawa Car Assembly Plant. Production commenced in May, 2005.

In 2005, AAI took occupancy of a newly constructed and leased 108,000 square foot plant in Oshawa, Ontario in order to consolidate its Canadian car operations and to accommodate

new business contracts. Early in 2005, AAI relocated sub-assembly operations from its Whitby (Forbes Street), Ontario plant to the new Oshawa facility. The Forbes Street plant was sold by Automodular during the second quarter of 2005.

In May, 2005, AAI received a contract renewal for the sub-assembly and sequencing business carried out in its Whitby (Montecorte Street), Ontario facility. In June 2005, the Company received a contract from a Tier 1 automotive manufacturer to sub-assemble and sequence components for truck assembly in Oshawa. Production commenced July, 2005.

During the third and fourth quarters of 2006, Oshawa-area operations were focused on the ramp up for the new truck program for GM scheduled for the fourth quarter. Full line rates (commercial production) were reached by the end of the fourth quarter.

In 2006, certain car plant operating performance continued to be weak because of line rate reductions and downtime experienced as GM re-balanced inventory levels.

In 2007, car plant #2 volumes continued to be weak as inventory levels continued to be re-balanced. Car operations were shut down for the month of December as GM consolidated its car operations into a single facility in preparation for new programs starting in the first quarter of 2009. Additionally, in the fourth quarter, GM announced the elimination of a shift of production in its truck operations. Effective January, 2008 Oshawa truck operations are running on a two-shift basis.

4.2.3 Automodular Assemblies (DE) Inc.

Automodular Assemblies (DE) Inc., ("**AAI(DE)**") ceased operations in 2004 and ceased to be a legal entity upon its December 31, 2004 amalgamation or merger with Tec-Mar. The following is a brief historical description of the business.

In June, 1998, the Company received a contract to be the major sub-assembler and sequencer for the new Saturn-L Series vehicle then being produced by GM at its Boxwood facility in Wilmington, Delaware. AAI(DE) was incorporated as a subsidiary of AAI to carry on the business of the Company in Delaware. In March, 2004, GM announced the termination of Saturn-L Series vehicle production in Wilmington, effective at the end of June, 2004. AAI(DE) declined to bid on sequencing and sub-assembly contracts for the two new vehicles which GM announced would commence production at its Boxwood plant in Wilmington. AAI(DE) closed its New Castle facility and ceased operations prior to 2004 year end. Effective December 31, 2004, AAI(DE) was amalgamated with its wholly-owned Michigan subsidiary, Tec-Mar Distribution Services, Inc. The amalgamated corporation is continuing under the name Tec-Mar Distribution Services, Inc.

4.2.4 Tec-Mar Distribution Services, Inc.

Tec-Mar ceased operations in June, 2007. The following is a brief historical description of its business.

In January, 2003, Automodular indirectly acquired Michigan-based privately-owned Tec-Mar Distribution Services, Inc., which provided sequencing services from four facilities to four GM plants throughout Michigan. Tec-Mar was amalgamated with its parent corporation, AAI(DE) in

December, 2004. The amalgamated corporation is continuing under the name Tec-Mar Distribution Services, Inc.

Tec-Mar was unsuccessful in its 2004 bid to extend and expand its contracts covering operations at its three Lansing, Michigan plants and Automodular decided to close the Lansing facilities. The remaining Lansing business was transferred to a competitor at the end of the second quarter, 2007. A charge of \$0.6 million (US\$0.5 million) was recorded in 2007 with respect to severance, benefit and other costs.

The Company was informed by GM that it was unsuccessful in its bid for an expansion of its Pontiac, Michigan operations and, in accordance with the terms of the bid, ceased to operate in Pontiac in mid-2006. The Pontiac operations reported revenues totaling approximately \$15 million (US\$12 million) during 2005 and employed 180 people. Pontiac operations ceased in June, 2006 and the Company recorded a charge of \$0.9 million (US\$0.7 million) with respect to severance, benefit and other exit costs.

4.2.5 Automodular Assemblies (Ohio) Inc.

In March, 2004, the Company was awarded contracts to sub-assemble and sequence components for the new Chevrolet Cobalt and Pontiac Pursuit vehicles to be produced in GM's Lordstown, Ohio assembly plant. In May, 2004, AAI(OH) was incorporated to carry on the Ohio business. In October, 2004, AAI(OH) commenced start-up production in a newly constructed and leased 70,000 square foot plant in Lordstown, Ohio and commercial production levels were reached in January, 2005. In the third quarter of 2006, operations transitioned from a three-shift to a two-shift operation and continued as such during 2007. During the third quarter of 2008, operations transitioned back to a three-shift operation from a two-shift operation.

4.3 Sales

The Company operates in one business segment, which is the sequencing and sub-assembly of modules of automobile parts for installation in cars and trucks being assembled by its customers. Sales attributable to geographical locations based on the location of the customer are as follows:

		2008 \$	2007 \$
Canada		78,513,000	93,050,000
United States		4,422,000	6,563,000
Total		82,935,000	99,613,000

4.4 Principal Properties

The Company operates more than 0.8 million square feet of plant and office space in North America. The following are plants leased by the Company as at the date hereof:

CANADA	UNITED STATES
200 Montecorte Street, Whitby, Ontario	1701 Henn Parkway, Lordstown, Ohio
940 Thornton Road South, Oshawa, Ontario	
235 Salem Road, Unit 6, Ajax, Ontario	
199 Wentworth Street E., Oshawa, Ontario	
2335 Speers Road, Oakville, Ontario	
2189 Speers Road, Oakville, Ontario	

The Company leases an administrative office at 20 Toronto Street, Suite 420, Toronto, Ontario. At the end of the first quarter, 2009, this administrative office will close and relocate to 235 Salem Road, Ajax, Ontario.

The Company is leasing temporary office space at 12251 Universal Drive, Taylor, Michigan for pre-production work for its Ford contracts.

4.5 Employees

Automodular employs approximately 650 people at its five operating plants located in Canada and the US and at its Toronto, Ontario head office.

In Oshawa, approximately 300 hourly employees are covered by a three-year collective agreement with the CAW expiring in 2010. In 2006, the Company negotiated an initial three-year collective agreement with the CAW for approximately 350 hourly employees in Oakville.

In Ohio, 36 hourly employees are covered by a collective agreement with the UAW expiring at the end of 2009.

The Company considers relations with its employees to be satisfactory.

4.6 Competitive Conditions

The industry in which the Company operates is subject to a number of risks and uncertainties and is extremely competitive.

Vehicle assembly plants must drive down costs to survive, while delivering the increasingly high quality consumers demand. With final assembly costs typically less than 10% of total vehicle costs, the Company's customers must rely on suppliers' productivity and diligence to achieve competitive vehicle costs and quality. The Company must continually find new and innovative ways to reduce costs.

The success of the Company is determined by three parameters. The Company must deliver modules that meet the quality requirements of its customers and of their customers; it must deliver them on time, every time; and it must deliver them at a cost that makes it more profitable for its customers to use its services than to do the same work themselves or to award the business to one of the Company's competitors.

The Company enters into long-term contracts with its customers and these contracts often contain price concessions over the contract term. As a result of the competitive automotive environment, pricing pressures have intensified and customers continue to demand additional price concessions and/or retroactive price reductions beyond existing contractual commitments. The Company's goal is to reduce or eliminate this erosion of profitability by cost reductions realized through continuous improvement programs. To the extent the Company is unable to offset such price concessions through cost reductions or improved operating efficiencies, such concessions could have a material adverse effect on the Company's profitability. To the extent the Company refuses to make price concessions, new and/or replacement business may not be awarded or existing business could be terminated or re-sourced which would also have a material adverse effect on the Company.

The Company has recognized 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 its business development efforts on more complex sub-assembly services which contain a higher value added element.

Over the last three years, several automotive suppliers were forced to undergo restructuring either through "Chapter 11" in the United States or pursuant to the *Companies Creditors Arrangement Act* ("**CCAA**") in Canada or otherwise as a result of being placed into receivership. These situations may impact the Company in three ways: the Company may be exposed to credit risk for those contracts with the Tier 1 suppliers; when the supplier emerges from Chapter 11, it might be a much stronger company and could thus be a competitive threat; and, such Chapter 11 and CCAA filings and receiverships create a level of unease in the lending community which makes it more difficult for the Company to finance capital and pre-production costs of new contract awards.

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 Corporation 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 Corporation 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 Corporation's financial condition and results of operations.

The Corporation'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 Corporation.

Recent labour agreements between North American OEMs and the UAW and the CAW contain terms designed to limit the amount of outsourcing by GM to protect UAW and CAW jobs in Canada and the United States.

Poor sales and the weakening economy have resulted in North American OEMs appealing to both the US and Canadian governments for funding in order to stay liquid. If the OEMs are unsuccessful in obtaining these funds, Automodular could be exposed to credit risk as the OEMs may run out of cash. Conversely, if the OEMs are successful in obtaining funds there may be conditions attached that may further limit outsourcing, reduce the OEMs internal cost structure or have other implications that may be detrimental to the Company.

4.7 Economic Dependence

The Company's largest customers are currently rated as below investment grade by credit rating agencies and in the event they are unable to satisfy their financial obligations or seek protection from their creditors, Automodular may incur additional expenses as a result of such credit exposure.

4.8 Changes to Contracts

Significant contracts relating to Automodular's Oshawa-area operations with GM were due to expire in 2008. The Company was informed by GM that certain of Automodular's contracts to sub-assemble and sequence components for the Oshawa truck and Oshawa car plants would end in June, 2008 and not be renewed. Accordingly, the Company expected to close one of its Oshawa-area facilities in mid-2008. These operations reported revenues totaling \$35 million in 2007 and employed approximately 275 personnel. Prior to the expiry of certain of those contracts, Automodular was advised that the contracts would be extended until the expiry of the truck program in the second quarter 2009.

4.9 Cyclical

The automotive industry is cyclical and impacted by various economic and political factors such as interest rates, energy prices, consumer demand and international conflicts. A reduction in vehicle production volumes by one of Automodular's customers may result in unplanned downtime. Unplanned downtime could adversely impact the profitability of the Company as Company earnings are primarily based on a variable piece price and many of the Company's costs are fixed.

4.10 Foreign Operations

During the past three years, the Company's reliance on its operations in the United States has been dramatically reduced. In 2005, the Company's US sales represented more than half of the Company's total sales. In 2008, US sales represented approximately 5% of the Company's total sales.

4.11 Risk Factors

In addition to the foregoing, the Company incorporates by reference the disclosure contained in the sections entitled "*Risk Factors*" contained in its *Management's Discussion and Analysis* for

the year ended December 31, 2008 which is available on the SEDAR website www.sedar.com as well as on the Company's website at www.automodular.com.

4.12 Outlook

The Company incorporates by reference the disclosure contained in the section entitled "2009 Outlook" contained in its *Management's Discussion and Analysis* for the year ended December 31, 2008 which is available on the SEDAR website www.sedar.com as well as on the Company's website at www.automodular.com

5. DIVIDEND POLICY

In 2001, the Board of Directors approved a dividend policy whereby the Corporation paid regular quarterly dividends at a rate of \$0.07 per common share for an aggregate dividend of \$0.28 per share per annum. Automodular paid dividends at this rate in the year 2002 and for the first three quarters of 2003. The Directors decided to omit the dividend scheduled for the fourth quarter 2003 and did not declare a dividend again until September, 2008. A dividend of \$0.03 per common share was paid on September 30, 2008 to shareholders of record September 16, 2008 and on December 30, 2008 to shareholders of record December 16, 2008. The Board of Directors will continue to review funds available for the payment of dividends on a regular basis and any future determination to pay dividends will be at the discretion of the Board of Directors and will depend upon the results from operations, capital requirements and such other factors as the Board of Directors considers relevant.

6. DESCRIPTION OF CAPITAL STRUCTURE

Common Shares:

The authorized capital of Automodular consists of an unlimited number of Common Shares without nominal or par value. As at December 31, 2008 and as at the date hereof, there were issued and outstanding 25,949,233 Common Shares. Holders of common shares are entitled to receive notice of, to attend and vote at all meetings of shareholders on the basis of one vote per share held.

Preference Shares:

The authorized capital of Automodular also consists of an unlimited number of preferred shares issuable in series. The directors may fix, from time to time, before the issue of any series of preferred shares, the rights, privileges, restrictions and conditions attaching to each such series, including, without limitation, the issue price per share, the dividend rate, any redemption or conversion terms and any sinking fund provisions. Each series of preferred shares shall rank as to the payment of dividends and distribution of assets on dissolution or winding up, on parity with every other series of preferred shares and in preference to the common shares. The preferred shares may be made convertible into common shares. Each series of preferred shares shall be non-voting, subject to the provisions of the Business Corporations Act, unless the directors otherwise determine.

No series of preferred shares have been created and there are no issued and outstanding preference shares.

7. MARKET FOR SECURITIES

The common shares of Automodular are listed on the Toronto Stock Exchange ("TSX") under the symbol "AM".

The Corporation is not aware of any rating of its securities from any approved rating organization.

The table below shows the monthly price range per share and the trading volumes of the Common Shares of the Corporation on the TSX for the year ended December 31, 2008.

COMMON SHARES			
Month	High \$	Low \$	Volume
January 2008	1.95	1.50	592,013
February 2008	2.10	1.64	128,542
March 2008	2.00	1.41	424,305
April 2008	1.90	1.50	435,157
May 2008	1.70	1.50	359,060
June 2008	1.61	1.10	746,194
July 2008	1.30	1.15	22,680
August 2008	1.49	1.15	383,947
September 2008	1.32	0.77	94,700
October 2008	0.95	0.47	63,009
November 2008	0.53	0.31	2,264,444
December 2008	0.35	0.15	228,563

8. DIRECTORS AND OFFICERS

8.1 Name, Occupation and Group Security Holdings

The following tables set out, for each of the Corporation's directors and officers the person's name, province or state and country of residence, position(s) with the Corporation, principal occupation during the five preceding years and the date on which the person became a director or officer. All directors hold office until the next annual meeting of shareholders of the Corporation or until the director resigns or a successor is duly elected or appointed.

As a group, the directors and officers of the Corporation beneficially own, or control or direct, directly or indirectly, 10,901,107 common shares of the Corporation representing 42 % of the issued and outstanding common shares of the Corporation.

Directors

Name and province or state and country of residence	Director since	Principal office with the Corporation, its significant affiliates and/or principal occupation during the 5 preceding years
Russell M. Baranowski, Ontario, Canada	1997	Retired as President of the Corporation on June 30, 2005
Michael F. Blair, Ontario, Canada	1989	President and Chief Executive Officer of the Corporation
Andrew Brenton, Ontario, Canada	2001	Chief Executive Officer, Turtle Creek Group (investment management firm) Prior to May, 2007, Managing Partner, Scotia Merchant Capital Corporation (merchant banker)
Garth Davis, Ontario, Canada	2001	Managing Partner, Turtle Creek Private Equity (investment management firm) Prior to May, 2007, Partner, Scotia Merchant Capital Corporation (merchant banker)
Henry J. Knowles, Ontario, Canada	1989	Business & Financial Consultant Prior to January 1, 2004, Counsel to the law firm of Sheldon•Huxtable
R. Peter McLaughlin, Ontario, Canada	2000	President, Greenbriar Holdings Limited (investment company)
James Rodgers, Ontario, Canada	2002	President, Cames Consulting Inc. (consulting company specializing in servicing the automotive parts manufacturing sector)
Rae E. Wallin, Ontario, Canada	1998	Chairman, President, N-Viro Systems Canada Inc. (bio-solids management company)

The Corporation has an Audit Committee whose current members are Andrew Brenton, Henry J. Knowles (Chairman), R. Peter McLaughlin and Rae E. Wallin.

The Company does not have an Executive Committee, a Compensation Committee or a Corporate Governance Committee. All significant operations and executive compensation

matters are presented directly to the Board for approval. The full Board also takes responsibility for Corporate Governance issues.

Officers

Name and province or state and country of residence	Appointed	Principal office with the Corporation and/or principal occupation during the 5 preceding years
Michael F. Blair, Ontario, Canada	1989	President and Chief Executive Officer
Christopher Dell ⁽²⁾ Ontario, Canada	2006	Vice-President, Business Development
Travis Doyle ⁽²⁾ Ontario Canada	2006	Vice-President, Program Launches
Diane Erlingher, Ontario, Canada	1998	Corporate Secretary
James Gazo ⁽²⁾ , Ontario Canada	2005	Vice-President, Operations
Christopher S. Nutt ⁽¹⁾ , Ontario, Canada	2003	Vice-President, Finance and Chief Financial Officer
Rae E. Wallin Ontario, Canada	2004	Chairman of the Board

(1) Before joining Automodular in 2003, Christopher Nutt was a partner in the accounting firm of Smith, Nixon & Co. LLP., former auditors of the Corporation.

(2) Messrs. Dell, Doyle and Gazo have been continuously employed by Automodular Assemblies Inc. , in various capacities since 1994, 1996 and 1989 respectively

8.2 Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Corporation, no director or executive officer of the Corporation is, or has been within the ten years prior to the date hereof, a director or chief executive officer or chief financial officer of any company that, (a) was the subject of an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

For the purposes hereof, an "order" means (a) a cease trade order; (b) an order similar to a cease trade order; or (c) an order that denied the relevant company access to any exemption under securities legislation, that, in each such case, was in effect for a period of more than 30 executive days.

To the knowledge of the Corporation, no director or executive officer of the Corporation is, and no shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, is, or has been within ten years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except as disclosed below:

Mr. Michael F. Blair, a director and President and Chief Executive Officer of the Corporation, was a director of Beukeboom's Country Fresh Market Inc., a retail food operation and a subsidiary of the Corporation that went into receivership in May, 2000, two months after he resigned as a director on March 16, 2000. Beukeboom's ceased to operate as a going concern.

Mr. Andrew Brenton, a director of the Corporation, was a director of RNG Group Inc., a private company which entered interim receivership on February 11, 2002 and was declared bankrupt on October 28, 2002. Mr. Brenton resigned as a director on December 21, 2001.

Mr. Henry J. Knowles, a director of the Corporation, was a director of Triangulum Corporation which had a receiver manager appointed to hold its assets approximately six months after he resigned as a director on December 19, 2001. Triangulum Corporation ceased to operate as a going concern.

Mr. R. Peter McLaughlin, a director of the Corporation is and has been a director of Alliance Surface Finishing Inc. ("Alliance") and its 70% subsidiary ASF Ontario Production Inc. ("ASF"), since 2004. On December 12, 2006, both Alliance and ASF filed a Notice of Intention to make a Proposal to Creditors under the provisions of the Bankruptcy Act, Canada. Both companies filed their respective Proposals to Creditors on June 11, 2007, had the Proposals approved by the creditors on June 28, 2007 and received Court approval for same on July 30, 2007. Unfortunately the housing crisis and weakened economy in the United States, combined with the depreciation of the US dollar caused the business of ASF to deteriorate to the point that it put itself into receivership on December 4, 2007 and had a Trustee in Bankruptcy appointed on December 7, 2007.

To the knowledge of the Corporation, no director, executive officer or a shareholder holding a sufficient number of securities to materially affect the control of the Corporation has, within ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of the Corporation, no director, executive officer or shareholder of the Corporation holding a sufficient number of securities to materially affect the control of the

Corporation (a) has been subject to any penalties or sanctions imposed by a court relating to securities legislation, or by a securities regulatory authority; or (b) since December 31, 2000, has entered into a settlement agreement with a securities regulatory authority or, before January 1, 2001, entered into a settlement agreement with a securities regulatory authority which would likely be important to a reasonable securityholder in making an investment decision; or (c) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in making an investment decision.

8.3 Conflicts of Interest

To the knowledge of the Corporation, there are no existing or potential conflicts of interest between Automodular or any of its subsidiaries and any director or officer of Automodular or any of its subsidiaries except as described below in Item 11.

9. LEGAL PROCEEDINGS

The Corporation is not, and was not during 2008, party to, and its property is not subject to, and was not subject to during 2008, any material legal proceedings. The Corporation does not know of any such material legal proceedings that are being contemplated.

10. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

During the three most recently completed financial years or during the current financial year of the Corporation, to the knowledge of the Corporation, no director or executive officer of the Corporation, no shareholder that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the securities of the Corporation, and no associate or affiliate of any of them, has or had any material interest, direct or indirect, in any transaction that has materially affected or is reasonably expected to materially affect the Company except as follows:

Mr. T. Daniel Flood, a former director of Automodular, was the President and a substantial shareholder of Tec-Mar, having founded that company in 1992. Automodular acquired all of the outstanding shares of Tec-Mar in January 2003 for approximately \$28.9 million (net of cash acquired). After completion of the Tec-Mar acquisition, Mr. Flood was appointed to the Board of Directors of Automodular. Mr. Flood resigned from the Board in September 2005.

Mr. T. Daniel Flood is also the owner, through a holding company, of two facilities located at 16130 and 16150 Grove Road in Lansing, Michigan which were leased by Tec-Mar pursuant to leases expiring in 2006 and 2008 respectively. The total base 2005 rent paid by Tec-Mar for the nine months during which Mr. Flood was a director of the Company under the two leases was US\$1.599 million. In December 2005, Tec-Mar entered into an agreement to settle remaining lease obligations on 16130 Grove Road. Under the terms of the settlement, Tec-Mar made an immediate payment to the landlord of US\$1.35 million. In the third quarter of 2007, Automodular turned the remaining facility back to the landlord.

In July, 2006, the Corporation completed a secured \$6 million financing with Roynat Inc., a wholly-owned subsidiary of The Bank of Nova Scotia ("**BNS**") which also owns 100% of SMCC. At such time, SMCC exercised 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, were, at such time, Managing Partner and Partner, respectively, of SMCC. Each of Mr. Brenton and Mr. Davis declared his 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 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 October, 2007, the Corporation completed new secured financing with BNS. The then existing BNS credit facilities were amended to include a three year non-revolving \$7 million term loan and an increased \$10 million revolving term facility. Again, although neither Mr. Brenton nor Mr. Davis were partners of SMCC by such date, each of them had become officers and shareholders of a company which provides consulting services to SMCC (see "*Directors and Officers*") and each declared his 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 in Oakville, Ontario and the Oshawa GM Canada-related expansion. BNS earned customary banking fees.

In October, 2007, the Corporation and SMCC, 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 million and to SMCC of \$6 million. The Underwriters also had the option, exercisable for a period of 30 days following the closing date, to purchase up to an additional 900,000 treasury common shares from the Corporation. The offering was completed in early November, 2007 and the Underwriters exercised their option in full. Gross proceeds to the Corporation were \$7.8 million. The net proceeds are being used by the Company for working capital and general corporate purposes. The Company did not receive any proceeds from the secondary offering by SMCC. Each of Mr. Brenton and Mr. Davis declared his interest in the transaction and refrained from voting on the matter.

11. TRANSFER AGENTS AND REGISTRAR

The Transfer Agent and Registrar of the Corporation is Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

12. MATERIAL CONTRACTS

The Company (i) did not enter into any material contracts in 2008 outside the normal course of business, and (ii) has not entered into any material contracts outside the normal course of business since January 1, 2002 which are still in effect, except as follows:

- (a) an underwriting agreement (the "**Underwriting Agreement**"), dated October 17, 2007, made between the Corporation, as issuer, SMCC, as selling shareholder, and GMP Securities LP and Canaccord Capital Corporation as the underwriters, with respect to the offering and sale in November 2007, of 3.9 million common shares issued from treasury by

the Corporation and the simultaneous secondary offering and sale by SMCC of 3 million common shares in the capital of the Corporation. (See "*Interest of Management and Others in Material Transactions*" for additional details).

13. INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP ("**PwC**"), the external auditors of the Corporation, reported on the 2008 financial statements. PwC has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

14. AUDIT COMMITTEE DISCLOSURE

The Audit Committee Charter is attached as Schedule A to this Annual Information Form.

14.1 Composition of the Audit Committee

The members of the Audit Committee are Andrew Brenton, Henry J. Knowles (Chairman), R. Peter McLaughlin and Rae E. Wallin.

14.2 Independence and Reliance on Exemption

The members of the Audit Committee are independent within the meaning of Multilateral Instrument 52-110 ("**MI 52-110**") "Audit Committees" except for Andrew Brenton in respect of whom the Corporation is relying on the exemption in Subsection 3.3(2) of MI 52-110.

Prior to May, 2007, Mr. Brenton was the Managing Partner of SMCC, which for much of 2007, beneficially owned 39.9% of the common shares in the capital of Automodular. Following its secondary offering and sale in November, 2007 of 3 million common shares of Automodular, SMCC beneficially owns 21.3% of the outstanding shares of Automodular. In May, 2007, Andrew Brenton was appointed CEO of Turtle Creek Group, which provides consulting and advisory services to SMCC in respect of its investment portfolio which includes its shares of Automodular. Automodular is entitled to rely on the exemption in Subsection 3.3(2) because:

- Mr. Brenton is not independent within the meaning of MI 52-110 solely because of his former position as Managing Partner of SMCC and his current position as an officer of Turtle Creek Group, advisors to SMCC;
- the three remaining members of the Audit Committee are independent;
- the shares of SMCC are not publicly traded;
- Mr. Brenton is not the Chair of the Audit Committee; and
- the Board of Directors has determined in its reasonable judgment that Mr. Brenton is able to exercise the impartial judgment necessary for him to fulfill his responsibilities as a member of the Audit Committee and believes his appointment is in the best interests of the Corporation and its shareholders.

14.3 Relevant Education and Experience

All members of the Audit Committee are financially literate in that they understand the business of the Company and the requirements of financial reporting, internal controls and procedures. They are able to understand the accounting principles used by the Company to prepare its financial statements and can assess the application of those principles in connection with the accounting for estimates, accruals and reserves.

Andrew Brenton holds a B.Sc. degree and an MBA and has more than 20 years of relevant business experience. In May, 2007 Mr. Brenton was appointed Chief Executive Officer of Turtle Creek Group, an investment management firm, and prior to that was President and the Managing Partner of Scotia Merchant Capital Corporation, a merchant banking arm of The Bank of Nova Scotia. SMCC manages \$250 million for The Bank of Nova Scotia for investment in public and private companies. Mr. Brenton was also Managing Director of Scotia Capital, Mergers and Acquisitions where a large number of valuations and fairness opinions were completed by him as principal professional.

Henry J. Knowles is a business and financial consultant with an MBA as well as a Master of Laws degree. He spent over 35 years in a corporate financial and legal structuring practice and was Chairman of the Ontario Securities Commission from 1980 to 1982. Mr. Knowles was also CEO of United Financial Management from 1987 to 1989 and taught entrepreneurial business structuring and finance at the University of Toronto.

R. Peter McLaughlin has a B.A. and a Law degree. While in law practice, Mr. McLaughlin was involved primarily in the fields of corporate, commercial and securities law and was involved in many merger and acquisition transactions from the perspective of both the purchaser and vendor. He was also involved in numerous securities-related transactions. He is President of Greenbriar Holdings Limited, a private family holding company that invests in new businesses in Ontario. As such he is responsible for both the review and investigation of business plans and proposals, as well as the review of the financial statements both prior to and following investment.

Rae E. Wallin is President of N-Viro Systems Canada Inc., a bio-solids management company. Mr. Wallin completed his CMA degree in 1970 and spent 25 years in financial management at General Electric Canada Inc. He was also Vice-President Finance and President of Black & Decker Canada. Mr. Wallin has served on boards and audit committees for the past 24 years.

14.4 External Auditor Service Fees (by Category)

Audit and audit related fees for Automodular and its subsidiaries:

External Auditor Services	Fiscal 2008 Fees \$	Fiscal 2007 Fees \$
Audit fees	123,506	118,250
Audit-related fees	48,249	48,265
Tax fees	76,974	56,316
All other fees	0	81,340
Total	248,729	304,171

The audit-related fees were incurred for quarterly reviews performed by PwC, Automodular's external auditors.

The tax fees were incurred for services consisting of tax compliance, including the preparation and review of Canadian and U.S. tax returns, assistance regarding income, capital and sales tax audits and tax advisory services relating to domestic and international taxation.

The other fees in 2007 were for services relating to the Prospectus, the U.S. consolidation and the Long-Term Incentive Plan.

In 2007, the Audit Committee by way of formal resolution, gave authorization to the Chief Financial Officer to spend up to \$5,000 on non-audit related services with PwC without approval of the Audit Committee. The Chief Financial Officer is required to report to the Audit Committee on such services at its subsequent Meeting.

15. ADDITIONAL INFORMATION

Additional information relating to Automodular can be found on SEDAR at www.sedar.com or on Automodular's website at www.automodular.com. Financial information is provided in the Corporation's comparative financial statements and management discussion and analysis ("MD&A") for the 2008 financial year. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in Automodular's Management Information Circular prepared for its most recent annual meeting of shareholders held on May 8, 2008 and the Management Information Circular to be prepared for its next annual meeting of shareholders, currently scheduled for May 7, 2009. Securityholders may obtain copies of this Annual Information Form, the Management Information Circular and the Annual Report containing the MD&A and the audited comparative financial statements for the most recently completed financial year from the Corporation's office at 235 Salem Road, Unit 2, Ajax, Ontario, Canada L1Z 0B1: telephone 905.619.4200 extension 2100 or by e-mail to the Corporate Secretary at invest@automodular.com.

Schedule A

AUTOMODULAR CORPORATION Charter of the Audit Committee

Purpose of the Committee

The Audit Committee's purpose is to provide assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of Automodular Corporation (the "Corporation"). Specifically, to foster communication between directors and external auditors, enhance the independence of the external auditors, and to represent the interests of shareholders through oversight of the external auditors on behalf of the shareholders.

It is the objective of the Audit Committee to maintain free and open communications among members of the Board, the committees of the Board, the external auditors and the financial management of the Corporation.

The Audit Committee shall have a written charter setting out its purpose and responsibilities.

Authority and Membership

The Audit Committee (the "Committee") of the Board of Directors (the "Board") is established pursuant to By-law No. 1 and the *Business Corporations Act*, (Ontario) sec. 158 (the "Act"). The Committee shall be comprised of three (3) or more directors as determined from time to time by resolution of the Board. Every member must be independent and financially literate. The meaning of "independent" and "financially literate" shall be determined by reference to Multilateral Instrument 52-110 Audit Committees ("MI 52-110"), articles 1.4 to 1.6, inclusive, articles 3.1(3) and (4), and 3.9. A person who is not financially literate may be appointed to the Committee, provided the member becomes financially literate within a reasonable period of time following their appointment. Members of the Committee shall be elected by the Board at the annual meeting of the Board or at such other time as may be determined by the Board.

The Chairman of the Committee (the "Chairman") shall be designated by the Board, provided that if the Board does not so designate a Chairman, the members of the Committee, by majority vote, may designate a Chairman.

Audit Committee Responsibilities

1. The Committee is responsible for having a written charter setting out its mandate and responsibilities.
2. The Committee is responsible for recommending to the Board:
 - (i) The external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; and
 - (ii) The compensation of the external auditors.
3. The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.
4. The Committee must pre-approve all non-audit services to be provided to the Corporation or any of its subsidiary entities by its external auditors.

5. The Committee must review the financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses the information.
6. The Committee must be satisfied that adequate procedures are in place for the review of any disclosure of financial information extracted or derived from the financial statements, other than as covered by item 5 above, and must periodically assess the adequacy of those procedures.
7. The Committee is responsible for establishing procedures for:
 - (i) The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) The confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
8. The Committee is responsible for reviewing and approving the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.

Pre-Approval of *De Minimis* Non-Audit Services

An audit committee satisfies the pre-approval requirement regarding non-audit services of the external auditor if:

- a. the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the issuer's external auditor during the fiscal year in which the services are provided;
- b. the issuer or the subsidiary entity of the issuer, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- c. the services are promptly brought to the attention of the Committee of the issuer and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Committee.

Delegation of Pre-Approval Function

1. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services in satisfaction of the requirement.
2. The pre-approval of non-audit services by any member to whom authority has been delegated pursuant to subsection (1) must be presented to the Committee at its first scheduled meeting following such pre-approval.

Pre-Approval Policies and Procedures

The Committee satisfies the pre-approval requirement in sub-section 2.3(4) if it adopts specific policies and procedures for the engagement of the non-audit services, if:

- a. the pre-approval policies and procedures are detailed as to the particular service;
- b. the audit committee is informed of each non-audit service; and
- c. the procedures do not include delegation of the audit committee's responsibilities to management.

Meetings of the Committee

The Committee shall meet with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities. The proceedings of all meetings will be minuted.

The Committee may invite such other persons to its meetings as it deems necessary.

The auditor of the Corporation or a member of the Committee may call a meeting of the Committee.

The auditor may attend Committee meetings, is entitled to receive notice of every meeting of the Committee, and at the expense of the Corporation, to attend and be heard thereat, and, if requested by a member of the Committee, shall attend every meeting of the Committee held during the term of office of the auditor. The auditor of the Corporation shall be entitled to attend at the expense of the Corporation and be heard at meetings of the Board of Directors on matters relating to the auditors' duties.

The presence in person or by telephone or other similar means of a majority of the Committee's members shall constitute a quorum for any Committee meetings. All decisions of the Committee will require the vote of a majority of its members present at a meeting at which a quorum is present.

Roles and Responsibilities

1. Financial Reporting

The Committee shall:

- (i) Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively;
- (ii) Consider with the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues;
- (iii) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements and understand their impact on the financial statements;
- (iv) Ask management and the external auditors about significant risks and exposures and the plans to minimize such risks;
- (v) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters;
- (vi) Establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (vii) Review any legal matters, which could significantly impact the financial statements; and
- (viii) Review and recommend approval to the Board of:
 - Prospectus-type documents
 - Related news releases
 - Information and earnings guidance provided to analysts and rating agencies.

2. Annual Financial Statements

The Committee shall review the financial statements of the Corporation and shall report to the Board of Directors before such financial statements are approved by the Board under section 159 of the Act (respecting approval of financial statements by directors).

- (i) Meet with management and the external auditors to review the financial statements and the results of the audit;
- (ii) Review the annual audited financial statements prior to presentation to the Board and distribution to shareholders and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate accounting principles;
- (iii) Recommend that the annual financial statements and all related documents be received and approved by the Board;
- (iv) Review the financial reports and statements of the Corporation that require the approval of the Board prior to being submitted to a regulatory body;
- (v) Be satisfied that adequate procedures are in place for the review of any disclosure of financial information extracted or derived from these financial statements and periodically assess the adequacy of those procedures;
- (vi) Review complex and/or unusual transactions and judgmental areas such as significant claims and contingencies that could materially impact the Corporation's financial position;
- (vii) Review Management's Discussion and Analysis of financial information in the annual report and the Annual Information Circular; and
- (viii) Review all Related Party transactions.

3. Interim Financial Statements

Assess the fairness of the preliminary and interim statements and disclosures and obtain explanations from management and internal and external auditors on whether:

- (i) Actual financial results for the interim period varied significantly from budgeted or forecasted results;
- (ii) Changes in financial ratios and the relationships in the interim financial statements are consistent with changes in the Corporation's operations and financing practices;
- (iii) Generally accepted accounting principles have been consistently applied;
- (iv) There are any actual or proposed changes in accounting or financial reporting practices;
- (v) There are any significant or unusual events or transactions; and
- (vi) The preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

4. Risk and Uncertainty

The Board of Directors, in consultation with management, identifies the principal business risks, decides on an acceptable level, approves related risk management policies and assigns oversight responsibilities to Board committees and the Board as a whole.

The Audit Committee requests the external auditor's opinion of management's assessment of significant financial risks facing the company and how effectively they are being managed or controlled.

5. Internal Control

The Audit Committee reviews the plans of the internal and external auditors to ensure the combined evaluation and testing of control is comprehensive, well coordinated, cost effective and appropriate to risks, business activities, changing circumstances etc.

- (i) Review appointments of key people involved in financial reporting;
- (ii) Review fraud prevention programs and monitors their implementation;
- (iii) Review annual budget and management control procedures;
- (iv) Evaluate whether management is settling the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities;
- (v) Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown;
- (vi) Gain an understanding of whether internal control recommendations made by the external auditors have been implemented by management;
- (vii) Review the process and procedures for Officer certification of financial information.

The Committee has authority to communicate directly with the Corporation's internal auditors.

6. External Audit

The Committee is directly responsible for engaging and overseeing the work of the external auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The external auditors shall report all material issues or potentially material issues to the Committee. The external auditor shall report directly to the Committee, and the Committee has the authority to communicate directly with the external auditors of the Corporation.

The Committee shall:

- (i) Review the external auditor's proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope;

- (ii) Review the performance of the external auditors;
- (iii) Consider the independence of the external auditor, including reviewing the range of services provided in the context of all consulting services bought by the Corporation;
- (iv) Review the annual audit plan and fees proposed by the external auditors;
- (v) Review the nature and extent of the liaison between the Corporation's staff and the external auditors;
- (vi) Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis;
- (vii) Report to the Board any conflict between the external auditors and management that the Committee has been unable to resolve within a reasonable period of time;
- (viii) Review the draft audit opinion on annual financial statements
- (ix) Review the management representation letter provided to the external auditors
- (x) Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately;
- (xi) Make recommendations to the Board regarding the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and their compensation; and
- (xii) The Audit Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall be accountable to the Board through the Audit Committee. The external auditors shall report all material issues or potentially material issues to the Committee.

7. Compliance with Laws and Regulations

The Committee shall:

- (i) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any fraudulent acts or non-compliance;
- (ii) Obtain regular updates from management and others (e.g. internal and external auditors, legal counsel) concerning the company's compliance with financial related laws and regulations such as:
 - Tax and financial reporting laws and regulations.
 - Legal, tax and withholding remittances.
 - Environmental protection laws.
 - Occupational health and safety laws.
 - Personal Information and Protection of Privacy laws
- (iii) Review insider stock trades for compliance with Automodular Corporate Disclosure Policy;

- (iv) Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- (v) Review the findings of any examination by regulatory agencies.

8. Other Matters

a. Conflicts of Interest

The Committee shall:

- (i) Review the Corporation's policies relating to the avoidance of conflicts of interest between the Corporation and members of management as well as procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets; and
- (ii) Annually, review and approve the CEO's expense accounts for the year then ended.

b. Committee's Right to Seek Independent Advice

The Committee has the authority to seek independent expert advice, including the retaining of independent counsel, accountants or others, as it determines necessary, to assist the Committee in fulfilling its duties and responsibilities and has the authority to set and pay the compensation for any advisors employed.

c. Committee's Caveat

While the Committee has the duties and responsibilities as set out in the Charter, the Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles.