

AUTOMODULAR CORPORATION

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009**

(UNAUDITED)

ALL NUMBERS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA

AUTOMODULAR CORPORATION

CONSOLIDATED INTERIM BALANCE SHEETS

(Unaudited)

(All numbers in thousands)

June 30, 2010

(Unaudited)

December 31, 2009

ASSETS

Current assets:

Cash and cash equivalents	\$	8,264	\$	5,072
Receivables (<i>Note 2</i>)		19,159		17,274
Income taxes recoverable		-		184
Prepaid expenses		3,839		3,631
		<u>31,262</u>		<u>26,161</u>

Marketable securities

1,252 1,210

Property, plant and equipment

22,592 27,882

Other assets

751 702

\$ 55,857 \$ 55,955

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$	11,959	\$	8,002
Income taxes payable		246		-
Current portion of long-term liabilities (<i>Note 3</i>)		402		6,900
		<u>12,607</u>		<u>14,902</u>

Future income taxes

2,062 1,101

Long-term liabilities (*Note 3*)

507 2,363

15,176 18,366

SHAREHOLDERS' EQUITY

40,681 37,589

\$ 55,857 \$ 55,955

AUTOMODULAR CORPORATION

CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
SALES (Note 6)	\$ 25,540	\$ 24,103	\$ 50,341	\$ 37,345
COST OF SALES AND OTHER EXPENSES	18,018	15,580	35,842	26,913
PREPRODUCTION COSTS	280	429	807	895
EXIT COSTS (Note 6)	<u>430</u>	<u>1,648</u>	<u>2,250</u>	<u>3,009</u>
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	<u>6,812</u>	<u>6,446</u>	<u>11,442</u>	<u>6,528</u>
Amortization	2,059	2,371	3,514	3,673
Property, plant and equipment impairment charge (Note 6)	-	-	3,250	-
Interest expense, net	31	267	239	428
Realization of cumulative translation loss (Note 7)	5,559	-	5,559	-
Other income	<u>21</u>	<u>(3)</u>	<u>27</u>	<u>(11)</u>
	<u>7,670</u>	<u>2,635</u>	<u>12,589</u>	<u>4,090</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(858)	3,811	(1,147)	2,438
INCOME TAXES	<u>1,466</u>	<u>1,235</u>	<u>1,379</u>	<u>834</u>
NET EARNINGS (LOSS) FOR THE PERIOD	\$ <u>(2,324)</u>	\$ <u>2,576</u>	\$ <u>(2,526)</u>	\$ <u>1,604</u>
Earnings (loss) per share -				
Basic and diluted	\$ (0.09)	\$ 0.10	\$ (0.10)	\$ 0.06
Weighted average common shares outstanding				
Basic	25,411,680	25,411,680	25,411,680	25,411,680
Diluted	25,411,680	25,411,680	25,411,680	25,411,680

AUTOMODULAR CORPORATION

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

(Unaudited)

(All numbers in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ (2,324)	\$ 2,576	\$ (2,526)	\$ 1,604
Items not involving current cash flows:				
Amortization	2,059	2,371	3,514	3,673
Property, plant and equipment impairment charge <i>(Note 6)</i>	-	-	3,250	-
Future income taxes	1,282	299	945	448
Compensation expense	94	63	188	125
Amortization of financing fees	-	33	72	65
Unrealized gain (loss) on interest rate swap	-	38	(17)	57
Foreign exchange gain	(8)	(3)	(2)	(8)
Pension expense	47	37	94	75
Pension contribution	-	-	(144)	(131)
Realization of cumulative translation loss <i>(Note 7)</i>	5,559	-	5,559	-
Gain on sale of property, plant and equipment	29	-	29	(3)
	<u>6,738</u>	<u>5,414</u>	<u>10,962</u>	<u>5,905</u>
Net change in non-cash working capital:				
Receivables	(2,608)	(7,939)	(1,871)	(5,040)
Income taxes receivable	289	1,261	433	658
Prepaid expenses	(316)	(55)	(206)	(272)
Accounts payable and accrued liabilities	2,039	1,033	3,987	62
	<u>6,142</u>	<u>(286)</u>	<u>13,305</u>	<u>1,313</u>
INVESTING ACTIVITIES				
Purchase of marketable securities	(48)	(630)	(187)	(630)
Purchase of property, plant and equipment and other assets	(662)	(881)	(1,686)	(2,398)
Proceeds on disposal of property, plant and equipment	183	-	183	28
	<u>(527)</u>	<u>(1,511)</u>	<u>(1,690)</u>	<u>(3,000)</u>
FINANCING ACTIVITY				
Repayment of long-term liabilities	(117)	(567)	(8,426)	(1,100)
	<u>(117)</u>	<u>(567)</u>	<u>(8,426)</u>	<u>(1,100)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	13	(35)	3	(27)
	<u>13</u>	<u>(35)</u>	<u>3</u>	<u>(27)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	5,511	(2,399)	3,192	(2,814)
Cash and cash equivalents, beginning of period	<u>2,753</u>	<u>5,701</u>	<u>5,072</u>	<u>6,116</u>
Cash and cash equivalents, end of period	<u>\$ 8,264</u>	<u>\$ 3,302</u>	<u>\$ 8,264</u>	<u>\$ 3,302</u>

AUTOMODULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009 (ALL NUMBERS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION

The consolidated financial statements of Automodular Corporation and its subsidiaries (“Automodular” or the “Company”) have been prepared following Canadian generally accepted accounting principles (“GAAP”) except that certain disclosures required for annual financial statements have not been included. Accordingly, the unaudited consolidated interim financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements. The consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements, except as explained below.

The consolidated financial statements include the accounts of the Automodular Corporation consolidated with those of its wholly-owned subsidiaries, Tec-Mar Distribution Services, Inc. and Automodular Assemblies (Ohio) Inc. All inter-company transactions and balances have been eliminated on consolidation.

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

2. ACCOUNTS RECEIVABLE

The Company adjusts trade accounts receivable balances, through a provision for doubtful accounts, to expected realizable value as soon as the account is determined not to be fully collectible, with such adjustments charged to earnings. When a trade accounts receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on a customer-by-customer evaluation of the collectibility of trade accounts receivable balances, taking into account amounts that are past due, the customer's payment history and any available information indicating that a customer could be experiencing liquidity problems. As at June 30, 2010, the allowance for doubtful accounts was \$21 (2009 - \$143).

The aging of accounts receivable balances (net of reserve for doubtful accounts) as at June 30 was as follows:

	2010	2009
Current:	\$ 16,509	\$ 15,543
Past due 0 – 30 days:	357	(20)
Over 30 days past due:	2,293	1,758
Total	<u>\$ 19,159</u>	<u>\$ 17,281</u>

3. LONG-TERM LIABILITIES

In March, the Company made payments totaling \$8.0 million fully repaying both of its outstanding term credit facilities. In conjunction with the repayment of one of the facilities, Automodular unwound its interest rate swap and paid a fee of \$0.1 million. All outstanding long-term debt relates to capital leases. The Company continues to maintain an undrawn \$10.0 million dollar line of credit.

Interest expense on long-term liabilities for the second quarter and year-to-date are \$17 and \$227 (2009 - \$268 and \$451), respectively.

AUTOMODULAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009 (ALL NUMBERS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

4. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest paid	\$ 3	\$ 34	\$ 355	\$ 386
Income taxes paid (refunded)	\$ (23)	\$ (100)	\$ (23)	\$ (100)

5. 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.

	As at and for the periods			As at and for the periods		
	ended June 30, 2010			ended June 30, 2009		
	YTD sales	Current quarter sales	PP&E	YTD sales	Current quarter sales	PP&E
Canada	\$ 48,946	\$ 24,833	\$ 22,592	\$ 36,269	\$ 23,564	\$ 30,391
United States	1,395	707	-	1,076	539	56
	<u>\$ 50,341</u>	<u>\$ 25,540</u>	<u>\$ 22,592</u>	<u>\$ 37,345</u>	<u>\$ 24,103</u>	<u>\$ 30,447</u>

6. OSHAWA-AREA CONTRACTS AND EXIT COSTS

2010

In April, General Motors of Canada Limited's announced the termination of Automodular's Oshawa-area contracts for the Chevrolet Camaro effective September, 2010. As a result of this termination Automodular expects to be exposed to the following costs:

Severance, facility and other related costs: Automodular recorded a charge of \$1.5 million in the first quarter in respect of severance. Automodular expects to record facility and other related costs at either the time they are incurred or at the time the facility is closed depending on their nature. It is expected that most of the remaining costs will be recorded in the third quarter of 2010. Automodular currently estimates remaining severance, facility and other related costs to be approximately \$2.0 to \$4.0 million.

Capital asset impairment charges: Automodular reviewed the carrying value of its Oshawa-area capital assets taking into account expected future cash flows and expected proceeds on sale or alternate use upon contract termination. At March 31, 2010, the net book value of capital assets before the impairment charge was \$6.4 million. As a result of the review, Automodular recorded an impairment charge of \$3.3 million in the first quarter. Management has reviewed its estimate and concluded that no further adjustment is warranted at this time.

As expected, Automodular's Ohio-area operations ceased production in June. Employees were severed and the Company recorded a charge of \$0.1 million for severance costs for salaried and hourly workers.

Included in exit costs in the current period are facility costs of \$0.3 million (for the six months ended June 30, 2010 - \$0.6 million) related to the Montecorte plant. These costs include rent, property taxes and other facilities amounts net of the amortization of the lease inducement previously recorded for this facility.

The Company will continue to re-examine its cost estimates on a quarterly basis and revise these estimates as circumstances change or as additional information becomes available.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009 (ALL NUMBERS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

2009

During the six months ended June 30, 2009 Automodular recorded charges of \$3.8 million in respect of severance, accelerated amortization of capital assets and other expected closure costs relating to the shutdown of Automodular's Montecorte operations. \$1.4 million of these costs were reflected in the first quarter and \$2.4 million recorded in the second quarter. Included in revenues in the second quarter of 2009 was \$4.4 million relating to a termination fee negotiated as part of a commercial agreement with respect to the plant closure.

Additional information relating to exit costs recorded for the closure of the Company's Montecorte facility in 2009 and the expected closure of the Company's Ohio and Thornton facilities in 2010 is provided below.

	Accrued Liabilities		
	Severance costs	Facility related costs	Total
<i>Opening balance: January 1, 2010</i>	\$ 832	\$ 1,212	\$ 2,044
Plus: exit costs/adjustments	1,617	633	2,250
Less: amounts paid/utilized	(195)	(898)	(1,093)
<i>Closing balance: June 30, 2010</i>	\$ 2,254	\$ 947	\$ 3,201

7. CUMULATIVE TRANSLATION LOSS

As a result of the closure of Automodular's last remaining US-based operation in June, the Company has recorded a charge in the current quarter of \$5.6 million in respect of the recognition of the cumulative translation loss relating to Automodular's US-based operations. This loss related to the increased strength of the Canadian dollar against the US dollar since the time that the Company purchased its US operations. The loss was partially offset by the realized gain on the US dollar portion of the purchase financing which was fully paid off in 2007. The recognition of this amount essentially reallocates the amount between other comprehensive income (loss) and deficit within shareholders' equity and has no impact on the consolidated balance sheet or cash position of the Company.

8. SUBSTANTIAL ISSUER BID

In June, Automodular announced a substantial issuer bid pursuant to which the Company offered to repurchase for cancellation up to \$5 million in value of its outstanding common shares from shareholders. The offer was by way of a modified "Dutch Auction" and the range of offer prices was \$0.90 to \$1.10 per share. The offer closed subsequent to quarter end. A total of 20,246,269 shares were deposited to the offer, with a total of 19,846,009 shares tendered at a price of \$0.90. A total of 5,555,554 shares will be taken up as a result of the offer at a total cost of \$4,999,999. Following this offer, Automodular will have 20,393,679 common shares outstanding.