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

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 2008 and 2007 and should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto. The MD&A discusses our performance and financial condition, provides an update on financial and non-financial developments during the past year and addresses future prospects.

BASIS OF PRESENTATION

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

COMPANY AND INDUSTRY OVERVIEW

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

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

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

At present, we employ approximately 650 people in five operating facilities servicing three General Motors ("GM" or "GM Canada") assembly plants and one Ford Motor Company ("Ford") assembly plant. We operated approximately 0.8 million square feet of plant space and provided sequencing and sub-assembly services for 1.0 million vehicles in 2008.

The Company currently 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

From 2005 to 2007, we saw demand for our services greatly increase. OEMs were taking advantage of employees accepting buyouts, which enabled the OEM to transition business to suppliers and lower its cost per vehicle. The optimal time to transition sub-assembly work is when new programs are launching and many new vehicle launches were scheduled over the 2008-2012 time-frame as North American OEMs responded to consumer pressure, demanding they introduce new vehicles to the market.

However, during the third quarter of 2008, we witnessed a significant reduction in North American vehicle production volumes due to a drop in consumer demand. The drop in demand is a result of several factors including:

- falling equity and home values;
- higher oil prices;
- lack of credit brought on by tighter lending practices;
- higher unemployment;
- weakening economic trends; and
- lack of consumer confidence.

In response to this significant reduction in consumer demand, our customers have responded by temporarily closing certain of their facilities in an effort to balance inventory levels.

The reduction in vehicle demand coupled with negative economic trends and the impact of the credit crisis has also resulted in the accelerated deterioration of our customers' financial condition. As a result, our customers have been lobbying both US and Canadian governments for financial support through this economic downturn. In order to retain the initial funds advanced and procure additional amounts, North American OEMs are required to provide detailed plans that address amongst other things marketing and cost-reduction programs that demonstrate that the OEMs can be viable on a long-term basis.

It is unclear at this time whether the lobbying efforts will be successful or whether one or more of the North American OEMs will have to file for creditor protection. The entire supply chain is under substantial financial pressure and failure of individual suppliers could have a ripple effect throughout the automotive industry.

2008 OVERVIEW

Results in 2008 were weaker than 2007 due to lower demand for vehicles coupled with the reduction in scope of Automodular's Oshawa-area operations.

Sales decreased from \$99.6 million in 2007 to \$82.9 million in 2008 and combined with a \$9.4 million write-off of goodwill, resulted in a net loss for the year of \$(6.9) million or \$(0.27) per share compared to net earnings of \$6.9 million or \$0.30 per share in 2007. 2007 figures were

restated as a result of a change in accounting policy relating to pre-production expenditures. The current year also includes a \$0.8 million charge relating to the reversal of US-based future tax assets where realization is uncertain.

Significant events in 2008 included the following:

- Automodular brought its second Oakville-area facility on line in January. These two Oakville facilities combined, cover approximately 0.4 million square feet in total and are dedicated to providing sub-assembly services for Ford's Oakville assembly plant.
- In the first quarter, the Company successfully negotiated a renewal contract with the United Auto Workers Union ("UAW") for its Ohio workers. The contract provides improvements in wages and benefits through December 31, 2009. The contract was secured with no labour disruption and was seamless to our customer.
- In the second quarter, there were a number of contracts in the Oshawa area that were set to expire. Certain contracts to sub-assemble and sequence components for GM Canada's Oshawa truck plant were extended for the remainder of the existing program which was subsequently announced to end in the second quarter of 2009. Concurrently, certain contracts to sub-assemble and sequence components for GM Canada's Oshawa truck and car plant expired at the end of June. Consequently, 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 for its initial Oakville facility. The Ford Q1 Award indicates that Automodular is recognized as a preferred supplier to Ford Motor Company and represents certifications and enhancements beyond the industry's standard requirements.
- In the third quarter, the Company's truck operations reduced from a two-shift operation to a one-shift operation. As a result of the reduction, approximately 75 employees were laid off and a pre-tax charge of \$0.4 million was recorded relating to these layoffs.
- During the third quarter, Automodular contributed an additional \$0.5 million to its existing Performance Share Unit Plan for senior executives.
- Operations were negatively impacted in the first half of the year as a result of a strike at one of our customer's suppliers, American Axle & Manufacturing, Inc. This labour disruption resulted in substantial downtime in the Company's Oshawa-area operations. Results in the second half were weaker as a result of a substantial number of downweeks, particularly in our Oakville-area operations as OEMs moved to reduce inventories and costs in light of lower demand and the overall weakening in the economy.
- Following a review of the carrying value of the goodwill and in light of Automodular's low market capitalization combined with uncertainties in the automotive industry, management concluded that it is appropriate to write off goodwill. This resulted in a \$9.4 million charge against earnings in the fourth quarter.
- Automodular declared and paid a dividend of \$0.03 per share in each of the third and fourth quarters of 2008.

RISK FACTORS

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

Industry Risk

The automotive industry is cyclical and influenced by various economic and political factors that include interest rates, consumer demand and international conflicts. OEMs are susceptible to declines in production volumes as a result of rising interest rates, general economic downturns, rising fuel prices, legislative changes, environmental concerns, emissions and safety issues, labour and/or trade disruptions and other factors.

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

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

Recent labour agreements between North American OEMs and the UAW and the Canadian Auto Workers Union ("CAW") contain terms designed to limit the amount of outsourcing by GM and Ford to protect CAW and UAW jobs. Accordingly, OEMs may insource some production that had previously been outsourced and limit future opportunities. A reduction in outsourcing would have an adverse effect on the Company.

Poor sales and the weakening economy have resulted in certain North American OEMs appealing to both the US and Canadian governments for funding in order to pay their bills as they come due. If the OEMs are unsuccessful in obtaining additional funds, Automodular may 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.

Dependence upon Key Customers

The Company has long-term contracts with GM, GM Canada, Ford and their various suppliers. All of the Company's sales are dependent on the OEMs and the production volumes of the OEMs for which it provides services. Accordingly, cancellation of a significant order or the insolvency of any such customers, or reduced sales of vehicles for which we have contracts, could materially and

adversely affect the Company's business. In addition, an extended work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers could have a significant impact on the Company's revenues and/or profits. Any of these events could impact Automodular's ability to be in compliance with its banking covenants with its lenders. If Automodular does not meet its required financial covenants then lenders have the right to demand immediate repayment of all outstanding debt and potentially cancel existing credit facilities. All of the Company's sales are in North America, a sector which has experienced over-capacity, significant competition and "legacy cost" (pension and healthcare liabilities especially in the United States) issues. These pressures have contributed to some production losses and pricing pressures for suppliers in the automotive industry.

Credit Risk

The Company's two largest customers are currently rated as below investment-grade by credit rating agencies, and in the event that 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. Management is investigating options to mitigate this exposure. Subsequent to year end, Automodular was able to insure a portion of its receivables from its two largest customers. Substantially all of the accounts receivable outstanding at December 31, 2008 have been paid as of the date of this filing.

Customer Contracts

Given the current trends in the automotive industry, the Company is under increasing pressure to absorb costs and provide additional price reductions over and above those already built into contracts. If the Company is unable to achieve savings through cost reduction programs to offset these items, future earnings will be adversely impacted. Contract volumes for customer programs not yet in production are based on estimates of future production levels. However, actual production volumes may vary significantly from these estimates because of a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require that they purchase a minimum volume or value. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the capital and pre-production costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Contracts can generally be terminated by a customer at any time and, if terminated, could result in the Company incurring close-out costs which may not be recoverable from our customer. All of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

Program Delays

From time to time, the Company may expand its production capacity through leasing new premises and/or contracting for the construction of new facilities to accommodate the award of new business from the Company's customers. There can be no assurance that the Company will be able to lease new

facilities on reasonable terms, if at all. Furthermore, the construction of new facilities also involves a number of operational and financial risks such as construction delays and delays associated with the installation, testing and start-up of new production equipment or manufacturing processes. Since many new facilities are leased and/or constructed to accommodate the launch of new customer production programs, the Company risks delays in program launches if it is unable to lease and/or construct new facilities as required.

Product Warranty, Recall and Liability Risk

Automobile manufacturers are requesting more and more that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

Labour Relations Matters

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

Dependence upon Key Personnel

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

Limited Financial Resources/Uncertainty of Future Financing/Banking

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

Potential Litigation

Although the Company is unaware of any material claims against it, there can be no assurance that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements.

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31,

2008 and 2007 (restated) are as follows:

(all numbers in thousands)	2008 % of sales		2007 % of sales	
Sales	\$ 82,935	100.0	\$ 99,613	100.0
Cost of goods sold and other expenses	68,941	83.1	81,069	81.4
Pre-production costs	2,622	3.2	2,732	2.7
Exit costs	963	1.2	508	0.5
Earnings before the following:	10,409	12.6	15,304	15.4
Amortization	5,131	6.2	4,096	4.1
Interest expense (income), net	820	1.0	428	0.4
Foreign exchange loss (gain)	(63)	(0.1)	163	0.2
Goodwill write-off	9,414	11.4	-	0.0
Other income	(71)	(0.1)	(50)	(0.1)
	15,231	18.4	4,637	4.7
Earnings (loss) before income taxes	(4,822)	(5.8)	10,667	10.7
Income taxes	2,043	2.5	3,796	3.8
Net earnings (loss) for the year	\$ (6,865)	(8.3)	\$ 6,871	6.9

Sales

Automodular's sales decreased from \$99.6 million in 2007 to \$82.9 million in 2008 due to a number of factors.

Canadian operations: Sales decreased from \$93.0 million to \$78.5 million in 2008 as a result of the reduction in scope of the Company's Oshawa-area operations. Due to the expiry of certain contracts, a reduction in number of shifts and downtime caused by American Axle, as previously described, as well as GM's efforts to reduce inventory levels and reduce costs, sales in Oshawa decreased 43% in the current year. Sales in the Company's Oakville-area operations show a slight increase year over year as extra pricing obtained through the addition of the new Ford Flex vehicle more than offset the impact of downtime in the second half of 2008 due to Ford's efforts to reduce inventory levels and costs.

US operations: US-based revenues were approximately US\$2 million lower in 2008 than in 2007. Automodular closed its last Michigan plant in 2007. During 2007, revenues from Michigan operations were US\$1.7 million (CDN \$1.8 million). Ohio-based operations were slightly down year over year primarily as a result of the cancellation of a contract with a Tier 1 customer.

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

EBITDA is used as a key financial measurement when evaluating operating performance and is a measure of cash operating earnings that is widely used in the automotive industry. The Company defines the metric as "earnings before interest, taxes, depreciation and amortization and non-cash items". **It is not a defined term under Canadian GAAP** and is, therefore, unlikely to be comparable to similar measures presented by other companies.

EBITDA decreased from \$15.3 million in 2007 to \$10.4 million in 2008. In Oshawa, this was primarily due to the reduction in scale of operations from expired contracts and lower volumes from the downtime and the elimination of shifts. In Oakville, this decrease is primarily due to downweeks in the second

half of the year. Automodular is paid on a fully variable basis for its Oakville contracts and is, therefore, fully exposed to fixed costs when downweeks occur as a result of efforts to re-balance inventories.

Reconciliation of EBITDA to earnings before income taxes:

(all numbers in thousands)	2008	2007
EBITDA	\$10,409	\$15,304
Amortization	5,131	4,096
Interest expense (income), net	820	428
Foreign exchange loss (gain)	(63)	163
Goodwill write-off	9,414	-
Other income	(71)	(50)
	15,231	4,637
Earnings (loss) before income taxes	\$ (4,822)	\$10,667

Earnings (Loss) Before Income Taxes

Earnings (loss) before income taxes decreased from earnings of \$10.7 million in 2007 to a loss of \$(4.8) million in 2008 as a result of the downsizing of the scope of the Company's Oshawa operations, the previously mentioned downtime experienced in the Company's Oakville operations and the \$9.4 million write-off of goodwill during the current year.

Amortization

Amortization increased year over year from \$4.1 million in 2007 to \$5.1 million in 2008. The current year figure includes amortization of Automodular's capital relating to the Ford Flex vehicle which entered commercial production during 2008.

Interest Expense, Net

Interest expense, net in 2008 of \$0.8 million compares to interest expense in 2007 of \$0.4 million. The higher interest expense in the current year is a result of the \$7 million term financing with our primary lender, completed in the fourth quarter of 2007, combined with the expensing of a portion of the mark to market on the interest rate swap. Automodular will record a corresponding reduction in interest expense relating to the mark to market adjustment when the facility is repaid.

Foreign Exchange

The Company recognized a foreign exchange gain of \$0.1 million in the current year compared to a loss of \$0.2 million in 2007.

Other Income

Other income was essentially flat year over year at approximately \$0.1 million.

Income Taxes

An examination of the current year tax provision using an effective tax rate is not meaningful because the write-off of goodwill is non-taxable. In addition, the current year tax provision also includes a reversal of \$0.8 million relating to future income tax assets set up relating to US operations where the realization is uncertain.

HISTORICAL ANNUAL DATA

(all numbers in thousands except per share amounts)

	2008	2007	2006
Sales	\$ 82,935	\$ 99,613	\$ 57,885
Net earnings (loss)	\$ (6,865)	\$ 6,871	\$ (3,753)
Earnings (loss) per share (basic and diluted)	\$ (0.27)	\$ 0.30	\$ (0.17)
Total assets	\$ 55,814	\$ 67,047	\$ 48,381
Total long-term liabilities	\$ 9,171	\$ 11,610	\$ 4,812
Cash dividends per share	\$ 0.06	\$ -	\$ -

2008 Versus 2007 Results

The income statement variances between 2007 and 2008 have been previously discussed.

Total assets are lower in the current year primarily as a result of the write-off of goodwill in 2008.

The decrease in long-term liabilities represents debt repayments on our two term credit facilities and capital leases in the current year.

2007 Versus 2006 Results

The increase in sales and net earnings from 2006 to 2007 was a result of the start-up of Automodular's Oakville operations. In 2006, Automodular was in the pre-production phase in Oakville with commercial production levels being reached in the first quarter of 2007.

In 2007, total assets increased by approximately \$18.7 million. This increase was primarily due to the purchase of capital expenditures as part of the rampup of the Company's Oakville operations and the increase in cash on hand as a result of the debt and equity financing in the fourth quarter of 2007.

Long-term liabilities increased over the same period as a result of Automodular completing a \$7.0 million financing to fund programs in its Oakville and Oshawa operations.

HISTORICAL QUARTERLY DATA – ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2008				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$20,810	\$25,013	\$20,691	\$16,421	\$27,721	\$27,050	\$21,941	\$22,901
Net earnings	\$(177)	\$1,639	\$2,021	\$(10,348)	\$2,071	\$2,571	\$1,849	\$380
Per share (basic and diluted)	\$(0.01)	\$0.06	\$0.08	\$(0.40)	\$0.10	\$0.11	\$0.08	\$0.01

In our industry, the first and second quarters of the year typically generate higher earnings than the third and fourth quarters because there are a greater number of non-production days (statutory holidays and in the third quarter generally a two-week closure for summer shutdown) in the latter half of the year. However, in 2008 Q3 results were stronger as a result of certain contract extensions in our Oshawa operations that contained a higher fixed portion of revenues.

Fourth Quarter (2008)

Operating results were significantly weaker in the fourth quarter of 2008 when compared to the same period in 2007 primarily as a result of the write-off of goodwill, the write-off of US future income tax

assets and lower production volumes in our Canadian operations as both Ford and GM utilized downtime to cut costs and rebalance inventories in the face of much weaker demand for vehicles.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Operating Activities (all numbers in thousands)

	2008	2007
Net earnings (loss)	\$ (6,865)	\$ 6,871
Non-cash items	16,684	7,162
Non-cash working capital & purchase of LTIP shares	(3,059)	4,999
Cash from operations	<u>\$ 6,760</u>	<u>\$ 19,032</u>

The decrease in cash from operations year over year is primarily the result of lower earnings in the current year and less cash generated from the change in non-cash working capital.

Investing Activities (all numbers in thousands)

	2008	2007
Purchase of PP&E (net)	<u>\$ (12,648)</u>	<u>\$ (8,434)</u>

Net purchases of property, plant and equipment (purchases less proceeds on dispositions) increased by \$4.2 million. During 2008 there were more programs in the pre-production phase. The current year expenditures relate primarily to the Camaro program in Oshawa and the Lincoln MKT program in Oakville which are both scheduled to launch in 2009. Further, 2008 also included expenditures relating to the Ford Flex which launched in the first half of 2008.

Financing Activities (all numbers in thousands)

	2008	2007
Issue of common shares	\$ -	\$ 7,035
Bank indebtedness	-	(4,919)
Proceeds from new financing facility	-	7,000
Dividends paid	(1,556)	-
Repayment of long-term liabilities	(2,154)	(3,994)
Cash from financing activities	<u>\$ (3,710)</u>	<u>\$ 5,122</u>

During the current year, Automodular paid dividends of \$0.03 per share on its common shares in each of the third and fourth quarters. Repayments of long-term liabilities in the current year of \$2.2 million included repayments on its two term credit facilities and capital leases. In 2007, Automodular issued 3.9 million common shares for gross proceeds of \$7.8 million (\$7.0 million after fees and expenses net of tax) as part of a bought deal. Also in 2007, Automodular used cash on hand to repay the prior year-end draw on the operating facility of \$4.9 million and an additional \$7.0 million was obtained from Automodular's primary lender to help fund new contract awards. Long-term liability repayments were higher in 2007 as Automodular completed the final payments on its US dollar term credit facility.

Unused and Available Financing Resources

Automodular's cash and cash equivalents on hand at year-end totaled \$6.1 million compared to \$15.6 million at the end of 2007. The Company has an undrawn \$10.0 million operating line.

Off Balance Sheet Financing

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2008 as set out in the chart below under "Contractual Obligations Due by Year", are \$39.8 million.

Financial Instruments

The Company is committed to an interest rate swap agreement on its \$7.0 million Canadian credit facility which expires October, 2010. The agreement subjects the Company to a fixed rate of 8.29% and the counterparty to a floating three-month LIBOR rate plus 3.5%. Note 15(b) to the financial statements describes the accounting for this instrument.

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

Contractual Obligations Due by Year (all numbers in thousands)

	2009	2010	2011	2012	2013	Thereafter
Long-term debt	\$ 1,963	\$ 6,513	\$ 1,000	\$ 667	\$ -	\$ -
Capital leases	\$ 591	\$ 475	\$ 333	\$ 317	\$ -	\$ -
Operating leases	\$ 5,981	\$ 4,900	\$ 4,709	\$ 3,527	\$ 2,543	\$ 6,248
Total contractual obligations	\$ 8,535	\$ 11,888	\$ 6,042	\$ 4,511	\$ 2,543	\$ 6,248

Shareholders' Equity

Shareholders' equity decreased from \$41.8 million in 2007 to \$34.5 million in the current year on a restated basis after adopting the new accounting policy for pre-production costs. The decrease is substantially due to the write-off of goodwill as previously described.

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

Also included, as a separate component of shareholders' equity, is a cumulative translation loss of \$5.6 million. This loss relates 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.

Contributed surplus was increased in 2008 due to the recognition of the benefit of the income tax effect of certain capital transactions.

Outstanding Share Data (all numbers in thousands except share and per share data)

	December 31, 2008		December 31, 2007	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	25,949,233	\$ 49,832	25,949,233	\$ 49,832

From December 31, 2008 to the date of this filing there has been no change to the number of shares outstanding.

Related Party Transactions

In October, 2007, the Company secured new financing with The Bank of Nova Scotia ("BNS") which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). The existing BNS credit facilities were amended to include a three-year non-revolving \$7.0 million term loan and a \$10.0 million revolving term facility. At that time, SMCC directly owned 39.9% of the issued and outstanding common shares of the Company. Andrew Brenton and Garth Davis, directors of the

Company, were formerly Managing Partner and Partner, respectively, of SMCC. Each of Mr. Brenton and Mr. Davis declared their interest in the transaction and refrained from voting on the matter. The financing is being used for general corporate purposes, including the expansion related to the second Ford Program and Oshawa-area contract awards. BNS earned customary banking fees.

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

2009 OUTLOOK

The forward-looking statements below are not historical facts but reflect the Company's current expectations regarding future results or events and are based on information currently available to management. Certain material factors and assumptions were applied in providing these forward-looking statements. Automodular has from time to time provided a financial outlook in its filings. In its MD&A for the quarter ended September 30, 2008, it indicated that as a result of the worsening economic climate it could not reasonably predict sales or profits for its operations. Going forward, Automodular will no longer provide a financial outlook. See our forward-looking statement disclaimer at the end of this MD&A.

Automodular has been and continues to be impacted by lower production volumes. Lower consumer confidence levels, the corresponding reduction in the number of people looking to buy new vehicles and the inability of consumers to obtain credit (due to fewer financing options and the near elimination of leasing) continues to take its toll on automotive sales. Projections are that the current economic conditions will continue over the next few quarters with some improvement expected in 2010. The Company is focused on conserving cash and managing and reducing its costs. Automodular enters the 2009 year with a strong balance sheet, cash on hand of \$6.1 million and an undrawn \$10 million line of credit.

In Oshawa, Automodular's truck plant contracts with GM will end in the second quarter 2009 when GM closes its truck facility. The current contract with GM provides funds to address severance, closure and residual facility costs relating to this closure. The remaining Oshawa contracts are those relating to the new Camaro program which is scheduled to enter commercial production during the first half of 2009.

In Oakville, a substantial number of downweeks are expected in 2009. Concurrently, our launch teams are preparing for the launch of the new Lincoln MKT vehicle which is scheduled for the second half of 2009.

Automodular is very interested in the outcome of the funding requests that the North American OEMs have made of the US and Canadian governments. Without funding both GM and Chrysler have indicated they would run out of cash in the near term and therefore need to seek creditor protection through a Chapter 11 filing. Whether as part of a Chapter 11 filing or as part of a restructuring that is brought about as a result of conditions attached to a government bailout, the automotive industry is going to change substantially. Labour costs and benefits paid to employees at the OEMs are expected to decrease and the outsourcing of work may be reduced. These changes would have an impact on Automodular and its prospects for future business.

Automodular is still being asked to quote on new contracts and accommodate scope changes from its customers. In the current environment, the Company is generally declining these requests to quote unless the customer is willing to pay for capital and pre-production expenditures up front. In addition, given weaker operating results and the difficulty in obtaining credit for automotive initiatives in the current market, Automodular is reviewing all substantial scope changes tabled by its customers and is looking for them to provide up front financing or direct payment of capital costs. At the same time, Automodular continues to look for opportunities that would diversify its operations while still utilizing the skill set of its existing management team.

ACCOUNTING POLICIES

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Company regularly examines its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

CHANGES IN ACCOUNTING POLICIES

Deferred Contract Costs

During the year, the Company changed its accounting policy regarding start-up and pre-production costs with an early adoption of CICA Handbook Section 3064. The new standard provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. This accounting treatment is more conservative and mirrors both IFRS and US GAAP. This change was applied retroactively and comparative financial information was restated.

The impact on the current year is the elimination of deferred contract costs on the balance sheet at December, 31, 2008. The impact on earnings for 2008 is a decrease of \$0.3 million and for 2007 a decrease of \$0.7 million. The notes to the financial statements describe the specific adjustments involved.

Capital Disclosures

CICA Handbook Section 1535 requires the disclosure of both qualitative and quantitative information to help users of financial statements evaluate the Company's objectives, policies

and processes for managing capital. Note 9 to the financial statements provides the required disclosures.

Financial Instruments

CICA Handbook Sections 3862 and 3863 require a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. Note 2 of the financial statements provides the required disclosures.

CRITICAL ACCOUNTING POLICY

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

Goodwill and Intangible Assets

As required by Section 3064 of the CICA handbook, goodwill and intangible assets must be evaluated at least annually to determine whether any impairment exists. The analysis compares the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets.

The Company evaluated the \$9.4 million carrying value of goodwill relating to its Canadian operations and concluded that it was appropriate to write-off the goodwill. Note 5 of the financial statements further describes the process used to make this determination.

International Financial Reporting Standards

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. Automodular will begin filing financial statements in accordance with IFRS effective January 1, 2011.

We are currently in the assessment phase of the conversion. This phase includes identifying key differences between existing Canadian GAAP and IFRS and then addressing them. A detailed analysis of the differences between IFRS and our accounting policies as well as an assessment of the impact of various alternatives are underway. Changes in accounting policies are likely and may materially impact our financial statements.

Over the next two years, Automodular will complete its assessment of the implications of converting to IFRS, estimate the impact and implement any required changes. It is not currently possible to fully determine the impact to the consolidated financial statements and any potential business impacts, as accounting standards and related interpretations continue to change.

Disclosure Controls and Procedures

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

Management evaluated the design and effectiveness of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the year ended December

31, 2008. The evaluation was performed by the CEO and CFO of Automodular with the assistance of other management and staff to the extent necessary. Based on this evaluation, the CEO and CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively. There were no material changes in the Company's internal controls over financial reporting in the year ended December 31, 2008 that have had, or are reasonably likely to have, a material effect on Automodular's internal controls over financial reporting.

Automodular will continue to analyze its controls and procedures for areas of improvement. In spite of its evaluation, management does recognize that "cost-effective" disclosure controls, disclosure procedures and internal control systems can only provide reasonable assurance, and not absolute assurance, that the objectives of the controls and procedures are met.

FORWARD-LOOKING STATEMENTS

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements". Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or performance, or our underlying assumptions. The words "*estimate, anticipate, believe, expect, intend*" or other similar expressions are intended to identify forward-looking statements. Forward-looking information involves certain risks, assumptions, uncertainties and other factors which may cause actual future results to differ materially from those expressed or implied in any forward-looking statements.

In Automodular's case, these factors principally relate to the risk with the automotive industry and include, but are not limited to:

- the effect of new accounting standards on our financial results;
- our ability to identify, close and integrate acquisitions;
- the ability to finance new business requirements;
- global economic conditions;
- fluctuations in interest and exchange rates;
- the continuation and extent of outsourcing by automotive manufacturers;
- our ability to meet customer needs relating to cost and quality;
- labour issues or disruptions;
- customer pricing pressures;
- actual levels of program production volumes differing from original expectations;
- our dependence on certain platforms;
- our relationship with and dependence on General Motors Corporation, General Motors of Canada Limited and Ford Motor Company; and
- new program launch risks and other changes in the business environment in which we operate.

Persons reading this MD&A are cautioned that forward-looking statements are only estimates and that our actual future results or performance may be materially different due to inherent risks and uncertainties surrounding future expectations, assumptions not being realized, changes in facts or other unforeseen circumstances. Except as required by continuous disclosure obligations, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results, circumstances or otherwise.

Additional information regarding the Company, including the Annual Information Form, can be found on the SEDAR website at www.sedar.com

March 25, 2009