



2 0 0 8 A N N U A L R E P O R T



AUTOMODULAR CORPORATION
2 0 0 8 A N N U A L R E P O R T

Contents

Financial Highlights	3
To the Shareholders	4
Management's Discussion and Analysis	5
Management's Responsibility for Financial Reporting	20
Auditors' Report	21
Consolidated Balance Sheets	22
Consolidated Statements of Shareholders' Equity and Comprehensive Income	23
Consolidated Statements of Earnings	24
Consolidated Statements of Cash Flows	25
Notes to Consolidated Financial Statements	26
Investor Information	35
Corporate Information	36



Financial Highlights

	Year ended December 31, 2008 (000s)*	Year ended December 31, 2007 Restated (000s)*
Sales	\$ 82,935	\$ 99,613
Earnings (loss) before income taxes	(4,822)	10,667
Net earnings (loss) for the year	(6,865)	6,871
Earnings (loss) per share	(0.27)	0.30
Total assets	55,814	67,047
Shareholders' equity	34,483	41,757

* except for per share data

To the Shareholders

Automodular Corporation earned \$2.5 million (before goodwill write-down) on sales of \$83 million in 2008, down from \$6.9 million on \$100 million in sales the prior year. Production volumes fell sharply in the fourth quarter of 2008 as the North American economy weakened and consumer purchases of vehicles dropped dramatically. This trend continues into 2009, with significant downtime at all assembly plants served by Automodular.

In the current environment, it is simply not prudent to forecast sales or profits. Automodular has maintained a conservative balance sheet and is operating at or near a cash break even despite the significant decline in production, and expects to emerge from the downturn without major damage to its ability to carry on as a going concern, although a bankruptcy of one or more of its major customers would be challenging. Automodular has insured approximately \$9 million of its accounts receivable for a period of 6 months, to protect it from such a calamitous event.

On behalf of the directors.

"Michael F. Blair" [signed]
President and Chief Executive Officer

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

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 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

Management's Responsibility For Financial Reporting

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

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

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders. In that capacity, they have examined the consolidated financial statements for the years ended December 31, 2008 and December 31, 2007 and their report, which outlines the scope of their examination and opinion, is included herein.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit Committee. The financial statements have been reviewed and approved by the Board of Directors on recommendation by the Audit Committee. The Audit Committee meets regularly during the year with management and the external auditors to discuss internal control issues, auditing matters and financial reporting issues. The external auditors have free access to the audit committee with and without the presence of management.

"Michael F. Blair" [signed]
Chief Executive Officer

"Christopher S. Nutt" [signed]
Chief Financial Officer

Toronto, Ontario
March 25, 2009

Auditors' Report

TO THE SHAREHOLDERS OF AUTOMODULAR CORPORATION

We have audited the consolidated balance sheets of **Automodular Corporation** as at December 31, 2008 and December 31, 2007 and the consolidated statements of earnings and shareholders' equity and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP

Toronto, Ontario

March 25, 2009

Consolidated Balance Sheets

as at December 31, 2008 and 2007
(all numbers in thousands)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,116	\$ 15,626
Receivables (Note 3)	12,474	12,563
Income taxes receivable	953	-
Prepaid expenses	3,810	3,509
	23,353	31,698
Future income taxes (Note 11)	-	911
Property, plant and equipment (Note 4)	31,696	24,079
Goodwill (Note 5)	-	9,414
Other assets (Note 13)	765	945
	\$ 55,814	\$ 67,047
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,373	\$ 10,386
Income taxes payable	-	1,145
Current portion of long-term liabilities (Note 7)	2,554	2,149
	11,927	13,680
Future income taxes (Note 11)	233	-
Long-term liabilities (Note 7)	9,171	11,610
	21,331	25,290
Contingencies and Commitments (Note 15)		
SHAREHOLDERS' EQUITY	34,483	41,757
	\$ 55,814	\$ 67,047

Signed on behalf of the Board

"Michael F. Blair" [signed]

Director

"Henry J. Knowles" [signed]

Director

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income

for the years ended December 31, 2008 and 2007
(all numbers in thousands)

	Capital Stock	LTIP	Contributed Surplus	Other Comprehensive Loss	(Deficit)/ Retained Earnings	Total	Other Comprehensive Income (Loss)
December 31, 2007 as reported	\$ 49,832	\$ (469)	\$ 91	\$ (6,645)	\$ 6,797	\$ 49,606	\$ -
Change in accounting policy	-	-	-	-	(7,849)	(7,849)	-
December 31, 2007 as restated	\$ 49,832	\$ (469)	\$ 91	\$ (6,645)	\$ (1,052)	\$ 41,757	\$ -
Net loss	-	-	-	-	(6,865)	(6,865)	(6,865)
Foreign currency translation	-	-	-	1,038	-	1,038	1,038
Unrealized loss on interest rate swap (Note 15 (b))	-	-	-	-	(132)	(132)	(132)
Income tax effect of capital transactions (Note 11(a))	-	-	615	-	-	(615)	-
LTIP (Note 8 (d))	-	(500)	-	-	-	(500)	-
Dividends	-	-	-	-	(1,556)	(1,556)	-
Compensation expense	-	126	-	-	-	126	-
December 31, 2008	\$ 49,832	\$ (843)	\$ 706	\$ (5,607)	\$ (9,605)	\$ 34,483	
Total Comprehensive Loss							\$ (5,959)

	Capital Stock	LTIP	Contributed Surplus	Other Comprehensive Loss	(Deficit)/ Retained Earnings	Total	Other Comprehensive Income (Loss)
December 31, 2006 as reported	\$ 42,566	\$ -	\$ 88	\$ (6,118)	\$ (724)	\$ 35,812	\$ -
Change in accounting policy	-	-	-	-	(7,199)	(7,199)	-
December 31, 2006 as restated	\$ 42,566	\$ -	\$ 88	\$ (6,118)	\$ (7,923)	\$ 28,613	-
Net earnings	-	-	-	-	6,871	6,871	6,871
Foreign currency translation	-	-	-	(527)	-	(527)	(527)
LTIP (Note 8 (d))	-	(500)	-	-	-	(500)	-
Shares issued (Note 8(e))	7,266	-	-	-	-	7,266	-
Compensation expense	-	31	3	-	-	34	-
December 31, 2007	\$ 49,832	\$ (469)	\$ 91	\$ (6,645)	\$ (1,052)	\$ 41,757	
Total Comprehensive Income							\$ 6,344

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

Consolidated Statements of Earnings

for the years ended December 31, 2008 and 2007
(all numbers in thousands except share and per share data)

	2008	2007
SALES	\$ 82,935	\$ 99,613
COST OF SALES AND OTHER EXPENSES	68,941	81,069
PRE-PRODUCTION COSTS (Note 1)	2,622	2,732
EXIT COSTS (Note 17)	963	508
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	10,409	15,304
Amortization	5,131	4,096
Interest expense, net (Note 15 (b))	820	428
Foreign exchange loss (gain)	(63)	163
Goodwill write-off (Note 5)	9,414	-
Other income (Note 10)	(71)	(50)
	15,231	4,637
EARNINGS (LOSS) BEFORE INCOME TAXES	(4,822)	10,667
INCOME TAXES	2,043	3,796
NET EARNINGS (LOSS) FOR THE YEAR	\$ (6,865)	\$ 6,871
Earnings (loss) per share -		
Basic and diluted	\$ (0.27)	\$ 0.30
Weighted average common shares outstanding		
Basic	25,620,112	22,613,174
Diluted	25,620,112	22,613,174

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

Consolidated Statements of Cash Flows

for the years ended December 31, 2008 and 2007
(all numbers in thousands)

	2008	2007
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net earnings (loss) for the year	\$ (6,865)	\$ 6,871
Items not involving current cash flows:		
Amortization	5,131	4,096
Future income taxes	1,842	2,741
Stock-based compensation	-	3
Compensation expense	126	31
Deferred financing fees	125	-
Foreign exchange loss (gain)	(63)	163
Pension expense	180	178
Purchase of LTIP shares	(500)	(500)
Gain on sale of property, plant and equipment	(71)	(50)
Write-off of goodwill	9,414	-
	9,319	13,533
Net change in non-cash working capital:		
Receivables	108	1,951
Income taxes receivable	(1,640)	1,213
Prepaid expenses	(235)	255
Accounts payable and accrued liabilities	(792)	2,080
	6,760	19,032
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and other assets	(12,878)	(8,546)
Proceeds on disposal of property, plant and equipment	230	112
	(12,648)	(8,434)
FINANCING ACTIVITIES		
Bank indebtedness	-	(4,919)
Proceeds from new share issue	-	7,035
Dividends paid	(1,556)	-
Proceeds from new financing facility	-	(7,000)
Repayment of long-term liabilities	(2,154)	(3,994)
	(3,710)	5,122
EFFECT OF EXCHANGE RATE CHANGES ON CASH	88	(94)
CHANGE IN CASH AND CASH EQUIVALENTS	(9,510)	15,626
Cash and cash equivalents, beginning of year	15,626	-
Cash and cash equivalents, end of year	\$ 6,116	\$ 15,626

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

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

1. BASIS OF PRESENTATION

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

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New accounting policies

Effective January 1, 2008, the Company adopted the following new *Canadian Institute of Chartered Accountants (CICA) Handbook* Sections: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535, Capital Disclosures, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Sections 3862 and 3863 consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. Section 3862 revises and enhances the disclosure requirements set out in Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3863 carries forward unchanged the presentation requirements of Section 3861.

Section 3862, Financial Instruments – Disclosures, requires the Company to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments for the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and as at the consolidated balance sheet date, and how the Company manages those risks.

On October 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064. The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, to replace Section 3062, Goodwill and Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. As a result of adopting this section the Company has commenced expensing start-up and pre-production costs as incurred. Previously, start-up and pre-production costs were capitalized and amortized, over the life of the original contract, commencing on the date commercial production is achieved, to a maximum of five years. After the commencement of commercial production, ongoing contract costs were expensed in the period incurred.

This change in accounting policy has been applied retroactively, and financial statements of prior periods have been restated. The impact on adopting the new policy on the consolidated balance sheets and statements of earnings is:

<i>Increase (decrease)</i>	2008	2007
Changes in consolidated balance sheets:		
Other assets	\$ (2,622)	\$ (11,099)
Future income taxes	776	3,250
Deficit	(1,846)	(7,849)
	Year ended December, 31 2008	Year ended December, 31 2007
Changes in consolidated statement of earnings:		
Cost of sales and other expenses	\$ 2,622	\$ 2,732
Amortization	(2,400)	(2,571)
Income taxes	72	489
Net earnings	\$ (294)	\$ (650)
Earnings (loss) per share – basic and diluted	\$ (0.01)	\$ (0.03)

Cash and cash equivalents

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

Property, plant and equipment

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

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

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

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

Deferred contract costs

Since adoption of the new *Canadian Institute of Chartered Accountants (CICA) Handbook* Section 3064 on October 1, 2008, all costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability are now being expensed as incurred.

Deferred financing costs

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

Long-lived assets

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

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisition.

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

In accordance with Handbook Section 3064 "Goodwill and Other Intangible Assets", the Company completed its annual goodwill impairment analysis during the fourth quarter of 2008. Based on the results obtained, the Company determined a full write-down was appropriate.

Revenue recognition

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

Pension plans

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

Until December 31, 2008 the Company also sponsored defined contribution pension plans. Company contributions to this plan were expensed as incurred.

Foreign exchange

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and revenue and expense transactions are translated at the actual rates of exchange in effect at the time of the transaction. Exchange gains and losses are included in income.

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

Income taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of any changes in tax rates on the future income tax balance is recognized in income in the period of change. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

Earnings per share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, which assumes that all options or warrants are exercised and that the proceeds would be used to purchase common shares at the average market price during the year.

Stock-based compensation

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

2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Recognition and Measurement: The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and long-term liabilities. The Company does not enter into financial instruments for trading, or speculative purposes. Financial assets are classified as available-for-sale, held-to-maturity, trading, or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the consolidated balance sheets at fair value. Subsequent measurement is determined by the classification of each financial asset and financial liability. Unrealized gains and losses on financial assets that are held as available-for-sale are recorded in other comprehensive loss until realized, at which time, they will be recorded in the consolidated statements of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheets. Transaction costs related to financial instruments are generally capitalized and then amortized over the expected life of the financial instrument using the effective yield method.

Credit Risk: The Company's financial assets that are exposed to credit risk consist primarily of receivables and interest-rate swaps. The Company, in its normal course of business, is exposed to credit risk from its customers. The Company is exposed to credit loss in the event of non-performance by counterparties to the interest-rate swaps. Risks associated with concentrations of credit risk with respect to interest-rate swaps are limited due to the credit rating of the swap counterparties and the frequent settlement of swap differences.

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 December 31, 2008, the allowance for doubtful accounts was \$8.

The aging of accounts receivable balances as at December 31, 2008 was as follows:

Current:	\$	9,966
Past due 0-30 days:		1,546
Over 30 days past due:		962
Total	\$	<u>12,474</u>

Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities, and maintaining credit facilities to ensure it has sufficient funds available to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities as at December 31, 2008:

	Carrying Amount	Less Than 1 Year	1 to 2 Years	After 2 Years
Accounts payable and accrued liabilities	\$ 9,373	\$ 9,373	\$ -	\$ -
Long-term debt	\$ 11,725	\$ 2,554	\$ 6,988	\$ 2,183
	<u>\$ 21,098</u>	<u>\$ 11,927</u>	<u>\$ 6,988</u>	<u>\$ 2,183</u>

Market Risk: The Company is subject to market interest-rate risks, as its credit facilities bear interest at rates that depend on certain financial ratios of the Company and vary in accordance with borrowing rates in Canada.

The following table presents a sensitivity analysis to changes in market interest rates and their potential impact on the Company for the year ended December 31, 2008. As the sensitivity is hypothetical, it should be used with caution.

Effect of market interest rate fluctuation for the year ended December 31, 2008:

	+100 bps	-100 bps
(Increase) decrease in interest expense	(42)	42
Increase (decrease) in interest income	30	(30)
Change to net unrealized gain (loss) on interest-rate swap	176	(176)
Increase (decrease) in earnings before income taxes	<u>164</u>	<u>(164)</u>

The Company manages its market interest-rate risk through the use of an interest-rate swap for a portion of its outstanding long-term indebtedness. As at December 31, 2008, the Company has entered into an interest-rate swap contract with its lender, such that the borrowing

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

rates on \$6,475, or 55.2% of its outstanding indebtedness, are effectively fixed. An additional \$1,699 of its outstanding long-term debt is capital lease financing at fixed rates ranging from 6.9% to 13.9%.

3. ECONOMIC DEPENDENCE

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

As at December 31, 2008, 96% (2007 - 88%) of trade receivables were due from GM and Ford (collectively, the OEMs).

4. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Buildings and leasehold improvements	\$ 5,263	\$ 3,422	\$ 1,841	\$ 4,342	\$ 2,882	\$ 1,460
Manufacturing equipment	27,380	10,978	16,402	17,821	7,078	10,743
Automotive equipment	585	328	257	600	276	324
Other equipment and furniture	5,903	2,686	3,217	4,686	2,570	2,116
Open capital projects	9,979	-	9,979	9,436	-	9,436
	<u>\$ 49,110</u>	<u>\$ 17,414</u>	<u>\$ 31,696</u>	<u>\$ 36,885</u>	<u>\$ 12,806</u>	<u>\$ 24,079</u>

5. GOODWILL

The Company performed an annual goodwill impairment test as at December 31, 2008 using the market capitalization method. Under this method, the Company considers the relationship between its market capitalization and its book value. The valuation returned under the market capitalization method indicated that the goodwill should be written off in its entirety. The current fair value of the Company was also estimated using the discounted cash flow method. This valuation approach used key judgments and assumptions that are sensitive to change, which include appropriate sales growth rates, EBITDA margins, operating capital requirements, weighted average cost of capital and market value multiples. When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the estimated fair value of the Company. These estimates and key judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. For example, should the deterioration in economic conditions be more significant or prolonged, key judgments and assumptions could be impacted. The results of this analysis did not indicate a write-down of goodwill. However, based on the current economic environment (in general as well as specifically in the Automotive industry) which can call into question the key assumptions surrounding the discounted cash flow method combined with a market capitalization several times greater than the book value of the Company management felt it was appropriate to write off goodwill.

6. CREDIT FACILITIES

The Company has a revolving credit facility with a limit of \$10,000, which expires October 5, 2010. At December 31, 2008, the Company had not drawn on this facility. Both the revolving credit facility and the term credit facilities described in Note 7 are secured by the Company's present and future assets, properties and undertakings. Interest is calculated at the bank's prime rate of interest plus 2.5%.

The effective interest rate at December 31, 2008 was 6.0% (2007 - 7.8%).

7. LONG-TERM LIABILITIES

	2008	2007
Canadian dollar term credit facility bearing interest at lenders' floating base rate. The effective interest rate for 2008 was approximately 8.1% (2007 - 9.4%). Payments of \$83 are due monthly, maturing August 15, 2012.	\$ 3,667	\$ 4,667
Canadian dollar term credit facility bearing interest at a floating rate, based on LIBOR. The Company is committed to an interest rate swap agreement relating to this debt which subjects the Company to a fixed rate of 8.29%. Payments of \$175 are due quarterly commencing June 2008 through September 30, 2009, \$438 quarterly commencing December 31, 2009 through September 30, 2010, maturing October 5, 2010.	6,359	6,760
Capital leases with interest rates ranging from 6.9% to 13.9%, repayable in monthly installments of \$48, with various maturities through 2012, secured by equipment with an original capital cost of \$2,942.	1,699	2,332
	<u>11,725</u>	<u>13,759</u>
Deduct: Current portion	<u>2,554</u>	<u>2,149</u>
	<u>\$ 9,171</u>	<u>\$ 11,610</u>

Interest expense on long-term liabilities for the year is \$944 (2007 - \$830).

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

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

2009	\$	2,554
2010		6,988
2011		1,267
2012		916
	\$	<u>11,725</u>

8. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares.

(b) Issued - Common Shares

	Number of Shares	Amount
Balance - December 31, 2005 and 2006	22,049,233	\$ 42,566
Share offering (Note 8(e))	3,900,000	7,266
Issued Common Shares – December 31, 2007 and 2008	<u>25,949,233</u>	<u>\$ 49,832</u>

(c) Options

Under the Company's stock purchase plan, the board of directors is entitled to grant to designated directors, officers and employees of the Company or any subsidiary thereof, the right to purchase unissued common shares of the Company. The options are granted at a price not less than the fair value of the shares on the date of the grant.

No options were granted during 2007 or 2008. During the year, 120,000 options expired. No options are outstanding at December 31, 2008.

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

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

Automodular made an initial contribution of \$500 to the Plan in 2007, in connection with awards under the Plan that will vest on or about December 31, 2010 (subject to earlier vesting in certain circumstances in accordance with the Plan). The entire allotment of shares was purchased by the plan on the open market during the third quarter of 2007. A total of 198,504 shares were purchased for aggregate consideration of \$500 and is shown as a reduction of shareholders' equity. On August 12, 2008, the board of directors approved an additional contribution of \$500 to this plan. During the third quarter of 2008 a total of 339,049 shares with a cost of \$500 were purchased by the plan on the open market. This amount has been shown as a reduction of shareholders' equity. Awards will vest on or about December 31, 2011 (subject to earlier vesting in certain circumstances in accordance with the plan).

For accounting purposes, the Plan is a variable interest entity and is consolidated in the accounts of the Company. The related compensation expense will be recorded over the vesting period which commenced during the final quarter of 2007. Compensation expense of \$126 was recognized in 2008 (2007 - \$31) in respect of awards under this plan.

All shares purchased under the LTIP are deducted from the weighted average common shares outstanding for the purposes of earnings per share calculations.

(e) New share issue

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

9. CAPITAL

The Company views its capital as the combination of its indebtedness and equity balances. In general, the overall capital of the Company is evaluated and determined in the context of its financial objectives and its strategic plan.

While the Company carries a level of cash on hand, this amount is modest in relation to its overall capital and is generally in an amount determined in reference to its short-term changes in non-cash working capital balances.

With respect to its level of indebtedness, the Company determines the appropriate level in the context of its cash flow and overall business risks. Generally, the Company has maintained a low level of indebtedness relative to cash flow in order to provide increased financial flexibility. The Company would consider increasing its level of indebtedness relative to cash flow to assist in the financing of new contract awards.

The Company's indebtedness is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. One such ratio is the total debt / EBITDA ratio, as defined in the credit agreement with the lender. EBITDA is defined as net earnings for the period plus interest expense (net), income taxes, foreign currency exchange loss (gain), depreciation and

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

amortization. The maximum ratio allowed for a 12-month rolling period is 2.0. For the rolling twelve month period ended December 31, 2008, this ratio was calculated at 1.1. Management also uses this ratio as a key indicator in managing the Company's capital.

The Company is also subject to a fixed charge coverage ratio covenant as defined in the amended credit agreement with the lender. Adjusted EBITDA, as defined by this agreement, is rolling EBITDA as defined above less unfunded capital expenditures, permitted distributions and consolidated income expenses. Fixed charges are defined as scheduled principal repayments and interest expenses. The minimum ratio allowed for a 12-month rolling period is 1.5. For the rolling twelve month period ended December 31, 2008, this ratio was calculated at 2.3.

With respect to the Company's equity, management considers the current level of capital adequate in the context of current operations and the present strategic plan of the Company. The equity component of capital increases primarily based upon the income of the business. Any major new contract awards may be financed in part with additional equity.

Payment terms relating to the Company's trade payables are generally net on the 25th of each month, which generally requires payment between a four and seven-week time frame.

10. OTHER INCOME

	2008	2007
Gain on disposal of property, plant and equipment	\$ 71	\$ 50

11. INCOME TAXES

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

	2008	2007
Property, plant and equipment and other assets	\$ 3,186	\$ 1,583
Reserves and other temporary differences	(2,338)	(2,494)
Income tax effect of capital transactions	(615)	-
	<u>\$ 233</u>	<u>\$ (911)</u>

During the year the Company recognized a future income tax asset in relation to certain capital transactions. These amounts were added to contributed surplus on the consolidated statement of shareholders' equity. Relating to this restructuring the Company has \$8,815 in net capital losses available for carryforward which have not been recognized in these financial statements.

(b) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 31.5% (2007 - 34.1%) were the following:

	2008	2007
Earnings (loss) before income taxes	\$ (4,822)	\$ 10,667
Expected income tax expense at statutory rates	\$ (1,502)	\$ 3,637
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	3,024	37
Valuation allowance	863	-
Changes in tax rates	(175)	(138)
Other	(167)	260
	<u>\$ 2,043</u>	<u>\$ 3,796</u>

During 2008, the Company recorded a \$863 charge to establish valuation allowances against its remaining US future tax assets. Accounting standards require that the Company assess whether valuation allowances should be established against its future income tax assets based on the consideration of all available evidence using a "more likely than not" standard. The factors the Company uses to assess the likelihood of realization are its forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The Company determined that a valuation allowance was required on these amounts as a result of the expected expiry of certain US contracts combined with projected operating losses from US operations in 2009.

(c) Provision

The details of the income tax provision are as follows:

	2008	2007
Current provision	\$ 201	\$ (1,217)
Future provision	1,842	5,013
	<u>\$ 2,043</u>	<u>\$ 3,796</u>

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2008	2007
Interest paid	\$ 944	\$ 924
Income taxes paid	\$ 1,525	\$ 171

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

13. PENSION PLANS

Until December 31, 2008, the Company had defined contribution plans in place for the employees of its subsidiaries. Contributions to these plans were based on specified percentages of salaries. The total expense for the defined contribution pension plans was \$1,318 (2007 - \$1,131). The Company also has a defined benefit pension plan for a senior executive of the Company. Information about the defined benefit plan is as follows:

	2008	2007
Total defined benefit pension expense is comprised as follows:		
Defined benefit plan		
Service costs (benefits earned during the year)	\$ 99	\$ 103
Interest costs on accrued benefit obligation	100	89
Expected return on plan assets	(90)	(86)
Amortization of transitional obligations	72	72
Total defined benefit pension expense	\$ 181	\$ 178
Pension fund asset is comprised as follows:		
Market value of plan assets at beginning of year	\$ 2,566	\$ 2,395
Employer contributions	-	139
Actual return on plan assets	(285)	32
Market value of plan assets at end of year	\$ 2,281	\$ 2,566
Accrued benefit obligations is comprised as follows:		
Obligation at beginning of year	\$ 1,801	\$ 1,777
Service costs (benefits earned during the year)	99	103
Interest costs on accrued benefit obligation	100	89
Actuarial (gain) loss on accrued benefit obligation	(309)	(168)
Accrued benefit obligations at the end of the year	\$ 1,691	1,801
Funded status at end of year:	\$ 590	\$ 765
Items not recognized in earnings:		
Unrealized transitional obligation	143	214
Unrecognized actuarial gains (losses)	32	(34)
Pension fund asset	\$ 765	\$ 945

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

	2008	2007
Discount rate	6.50%	5.25%
Expected long-term rate of return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%
Retirement age	65 years	65 years
Expected remaining service life	2 years	3 years

Based on the result of an actuarial valuation completed as of December 31, 2008, funding contributions are expected to be \$131 for the year 2009. Payments will commence upon retirement of the key executive. The next actuarial valuation of the plan for funding purposes will be required no later than December 31, 2010 or in the event of a plan amendment.

During 2004, the Company committed to providing a second senior executive with certain post-retirement benefits. The executive retired during the second quarter of 2005 and is receiving monthly payments of \$5. This obligation is unfunded. The accounts payable and accrued liabilities include \$0.3 million in respect of this obligation.

Plan assets

As referred to above, the Company established a retirement compensation arrangement for a senior executive of the Company in order to pre-fund the benefits under the plan. Under the terms of the retirement compensation arrangement, 50% of all contributions to the plan are required to be deposited with the Canada Revenue Agency. At December 31, 2008 49% (2007 - 42%) of the plan assets at fair value were deposited in the tax account and 51% (2007 - 58%) were invested. The balance invested consists of the following allocations:

	Target	2008 Actual	2007 Actual
Fixed income	40%	47%	43%
Canadian equity	50%	43%	49%
US equity	5%	1%	0%
International equity	5%	9%	8%

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

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

14. RELATED PARTY TRANSACTIONS

The Company paid rent to a company controlled by a former member of the Board of Directors totaling nil (2007 - \$538 (US\$501)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

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

In November, 2007, the Company and SMCC ("the Selling Shareholder"), entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 3 million common shares from the Company and 3 million common shares from the Selling Shareholder at a price of \$2.00 per share for aggregate gross proceeds to the Company of \$6,000 and to the Selling Shareholder of \$6,000. The Underwriters also had the option, which they exercised, to purchase up to an additional 900,000 common shares from the Company on the same terms and conditions. The net proceeds from the treasury offering were 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.

15. CONTINGENCIES AND COMMITMENTS

(a) Operating leases

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

	US	CDN	
	Denominated	Denominated	Total
2009	\$ 779	\$ 5,032	\$ 5,981
2010	-	4,900	4,900
2011	-	4,709	4,709
2012	-	3,527	3,527
2013	-	2,543	2,543
Thereafter	-	6,248	6,248
	<u>\$ 779</u>	<u>\$ 26,959</u>	<u>\$ 27,908</u>

(b) Interest Rate Swap Agreement

The Company is committed to an interest rate swap agreement, expiring October, 2010, on its Canadian dollar denominated term debt of \$7,000 (see Note 7). The agreement subjects the Company to a fixed rate of 8.29% and the counterparty to a floating three-month LIBOR rate plus 3.5%. As at December 31, 2008, the estimated fair value of this agreement, which was calculated using year-end market rates, was \$375. The Company currently has no plans to unwind this position prior to maturity. At December 31, 2008, the fair market value of the contract was a liability of \$375 (2007 - \$1) and was included in accounts payable and other liabilities. A charge of \$181 was recognized during the year ended December 31, 2008 (2007 - nil) in interest expense relating to unrealized losses on the interest rate swap prior to October 1. Effective October 1, 2008, the Company adopted hedge accounting for the interest rate swap and recorded the remaining unrealized loss, net of taxes, in other comprehensive income in accordance with hedge accounting guidelines.

(c) General

In the ordinary course of business activities, the Company is a party to certain claims. Management believes that the resolution of such claims will not have a material adverse effect on the consolidated position of the Company.

16. SEGMENTED INFORMATION

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

	2008		2007	
	Sales	PP&E and Goodwill	Sales	PP&E and Goodwill
Canada	\$ 78,513	\$ 31,578	\$ 93,050	\$ 33,317
United States	4,422	118	6,563	176
	<u>\$ 82,935</u>	<u>\$ 31,696</u>	<u>\$ 99,613</u>	<u>\$ 33,493</u>

Notes to Consolidated Financial Statements

as at December 31, 2008 and 2007
(all numbers in thousands except share and per share amounts)

17. OSHAWA-AREA CONTRACTS AND EXIT COSTS

During the first quarter of 2008, the Company was informed by General Motors Corporation ("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. During the second quarter of 2008, the Company was subsequently informed that GM would renew the Oshawa truck contract for the remainder of the existing program that is set to expire on a yet to be disclosed date in 2009.

On June 30, 2008, the Company announced the lay off of approximately 120 employees, due to the expiry of certain contracts and recorded a charge of \$645 for estimated severance costs at that time. On August 28, 2008, the Company announced the lay off of approximately 75 additional employees, due to the elimination of the second shift of production at the Oshawa truck plant. A charge of \$543 was recorded in the quarter ended September 30, 2008 relating to the most recent lay off and an adjustment to the previously recorded amounts based on revised estimates. Payments of \$236 have been made to December 31, 2008 in respect of the amount accrued. The Company recorded a further adjustment to the previously recorded amounts in the fourth quarter of 2008 based on revised estimates.

	2008
Severance amounts booked in Q2 2008	\$ 645
Severance amounts booked in Q3 2008	543
Adjustment to severance amounts booked in Q4 2008	<u>(225)</u>
Adjusted exit costs	963
Payments made to date	<u>(236)</u>
Remaining severance liability as at December 31, 2008	<u>\$ 727</u>

Under the terms of a union agreement, these employees are entitled to a termination payment; however, should they be recalled to full-time employment no such payment will be made. Additionally, the union agreement also requires the Company to enter into negotiations on the amount of such termination payments. Included in these consolidated financial statements is an estimate of the termination payments to be made, which takes into consideration, based on current facts and circumstances, (i) the number of employees who will be subject to a recall notice and (ii) the amount of termination payable. In future periods, this estimate may change due to changes in these estimates and as new or modified contracts are entered into.

2007

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

Investor Information

COMPARATIVE DATA (Restated)

	Dec. 31 2008	Dec. 31 2007	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004
Operations (\$000s)					
Sales	82,935	99,613	57,885	79,210	93,537
Net earnings (loss)	(6,865)	6,871	(3,753)	9,667	(10,989)
Cash flow from operations	6,760	19,032	(8,700)	12,918	2,447
Financial (\$000s)					
Total assets	55,814	67,047	48,381	50,601	35,332
Long-term debt	9,171	11,610	4,812	2,502	122
Shareholders' equity	34,482	49,606	35,812	34,864	22,145
Return on average shareholders' equity (%)	(16.3)	16.1	(10.6)	33.9	(38.7)
Per share (\$)					
Net earnings (loss)	(0.27)	0.30	(0.17)	0.47	(0.58)
Weighted average number of shares outstanding (000s)	25,620	22,613	22,049	20,611	19,058

QUARTERLY DATA (\$000s)

	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
Amortization	858	1,516	1,522	1,235	1,075	992	1,011	1,018
Net earnings (loss)	(177)	1,639	2,021	(10,348)	2,071	2,571	1,849	380

COMMON SHARE PRICES

Calendar year

	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000s)
2008			
Fourth quarter	0.95	0.15	2,556
Third quarter	1.49	0.77	501
Second quarter	1.90	1.10	1,540
First quarter	2.10	1.41	1,144
2007			
Fourth quarter	2.35	1.65	2,519
Third quarter	2.72	1.95	422
Second quarter	2.45	1.90	378
First quarter	1.90	1.50	28



Corporate Information

HEAD OFFICE (until March 31, 2009)

20 Toronto Street, Suite 420
Toronto, ON M5C 2B8
Tel: (416)861-0662
Fax: (416)861-0063
automodular.com
invest@automodular.com

AJAX

Automodular Corporation
235 Salem Road, Unit 6
Ajax, ON L1Z 0B1
Tel: (905)619-4200
Fax: (905)619-9466

OSHAWA

Automodular Corporation
200 Montecorte Street
Whitby, ON L1N 9V8
Tel: (905)665-0060
Fax: (905)665-8560

DIRECTORS

Russell M. Baranowski

Michael F. Blair
President & Chief Executive Officer

Andrew Brenton
Chief Executive Officer
Turtle Creek Group

Garth Davis
Managing Partner
Turtle Creek Private Equity

OHIO

Automodular Assemblies (Ohio) Inc.
1701 Henn Parkway
Lordstown, Ohio
44481 U.S.A
Tel: (330)824-3461
Fax: (330)824-3418

OAKVILLE

Automodular Corporation
2335 Speers Road
Oakville, ON L6L 2X9
Tel: (905)469-9996
Fax: (905)469-9997

OAKVILLE

Automodular Corporation
2189 Speers Road
Oakville, ON L6L 2X9
Tel: (905)469-9996
Fax: (905)469-9997

Henry J. Knowles
Business & Financial Consultant

R. Peter McLaughlin
President
Greenbriar Holdings Limited

James Rodgers
President
Cames Consulting Inc.

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

AUDITORS

PricewaterhouseCoopers LLP
Toronto

PRINCIPAL BANKERS

The Bank of Nova Scotia

SOLICITORS

Sheldon • Huxtable, Toronto

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
Tel: (416)981-9500
Fax: (416)981-9800
Toll free: (800)663-9097
computershare.com

OFFICERS

Michael F. Blair
President & Chief Executive Officer

Christopher Dell
Vice-President Business Development

Travis Doyle
Vice-President Program Launches

Diane Erlingher
Corporate Secretary

James Gazo
Vice-President Operations

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

Rae E. Wallin
Chairman of the Board

Annual and Special Meeting

**THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS WILL BE HELD IN THE KETCHUM/OSGOODE ROOMS
OF THE TORONTO BOARD OF TRADE DOWNTOWN CENTRE**

1 FIRST CANADIAN PLACE TORONTO ONTARIO

ON THURSDAY MAY 7, 2009 AT 11:00 A.M.

ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.



AUTOMODULAR CORPORATION

www.automodular.com