

Automodular Corporation

Interim Consolidated Financial Statements

For the three-month periods ended March 31, 2011 and 2010

(Unaudited)

All numbers in thousands, except share and per share data

AUTOMODULAR CORPORATION
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Cash and cash equivalents		\$ 12,038	\$ 10,324	\$ 5,072
Trade and other receivables	4 & 5	13,539	11,458	17,274
Income taxes recoverable	16	-	-	184
Prepaid expenses		1,421	2,428	3,631
Current assets		26,998	24,210	26,161
Investments		326	305	1,210
Plant and equipment	6	18,070	18,695	26,432
Other assets	12	466	514	575
Total assets		\$ 45,860	\$ 43,724	\$ 54,378
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Trade payables and accrued liabilities	19	\$ 6,688	\$ 7,303	\$ 5,921
Provisions	7, 13 & 19	433	865	2,081
Income taxes payable	16	683	1,286	-
Current portion of long-term liabilities	9 & 19	399	390	6,900
Current liabilities		8,203	9,844	14,902
Deferred income taxes	16	1,868	1,586	707
Long-term liabilities	9 & 19	204	308	2,363
Total liabilities		\$ 10,275	\$ 11,738	\$ 17,972
Total shareholders' equity		\$ 35,585	\$ 31,986	\$ 36,406
Total liabilities and shareholders' equity		\$ 45,860	\$ 43,724	\$ 54,378

Approved by the Board of Directors on May 11, 2011

AUTOMODULAR CORPORATION
INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2010		\$ 44,570	\$ (218)	\$ 706	\$ (305)	\$ (12,767)	\$ 31,986
Net earnings for the period		-	-	-	-	3,546	3,546
Unrealized loss on investments		-	-	-	(1)	-	(1)
Compensation expense	10	-	54	-	-	-	54
Balance, March 31, 2011		\$ 44,570	\$ (164)	\$ 706	\$ (306)	\$ (9,221)	\$ 35,585

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total
Balance, January 1, 2010		\$ 49,832	\$ (593)	\$ 706	\$ -	\$ (13,539)	\$ 36,406
Net earnings (loss) for the period		-	-	-	-	(178)	(178)
Foreign currency translation		-	-	-	18	-	18
Unrealized loss on investments		-	-	-	(288)	-	(288)
Unrealized loss on interest rate swap		-	-	-	(17)	-	(17)
Compensation expense	10	-	94	-	-	-	94
Balance, March 31, 2010		\$ 49,832	\$ (499)	\$ 706	\$ (287)	\$ (13,717)	\$ 36,035

See accompanying notes to the interim consolidated financial statements

AUTOMODULAR CORPORATION
INTERIM CONSOLIDATED STATEMENT OF OPERATIONS
(unaudited)

<i>(thousands of Canadian dollars, except per share amounts)</i>	Notes	For the three months ended March 31,	
		2011	2010
Sales		\$ 20,760	\$ 24,801
Cost of sales and other expenses		13,661	17,824
Preproduction costs		200	527
Exit costs	13	989	1,820
Earnings from operations before the following:		5,910	4,630
Amortization		1,054	1,483
Interest expense, net	14	7	208
Other expense (income)	15	(75)	6
		986	1,697
Earnings before impairment and income taxes		4,924	2,933
Plant and equipment impairment charge	13	-	3,194
Earnings (loss) before income taxes		4,924	(261)
Provision for (recovery of) income taxes			
Current	16	1,096	169
Deferred	16	282	(252)
Net earnings (loss) attributable to shareholders for the period		\$ 3,546	\$ (178)
Basic and fully diluted earnings (loss) per share	10	\$ 0.18	\$ (0.01)

AUTOMODULAR CORPORATION
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	For the three months ended March 31,	
		2011	2010
Net earnings (loss) for the period		\$ 3,546	\$ (178)
Foreign currency translation		-	18
Unrealized loss on investments		(1)	(288)
Unrealized loss on interest rate swap		-	(17)
Total comprehensive income (loss) attributable to shareholders for the period		\$ 3,545	\$ (465)

See accompanying notes to the interim consolidated financial statements

AUTOMODULAR CORPORATION
INTERIM CONSOLIDATED STATEMENT OF CASH FLOW
(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	For the three months ended March 31,	
		2011	2010
OPERATING ACTIVITIES			
Net earnings (loss) for the period		\$ 3,546	\$ (178)
Items not involving current cash flows:			
Amortization		1,054	1,483
Plant and equipment impairment charge	13	-	3,194
Deferred income taxes		282	(324)
Compensation expense	10	54	94
Amortization of financing fees	9	-	72
Unrealized loss on interest rate swap		-	(17)
Interest expense, net	14	7	208
Foreign exchange gain	15	1	6
Pension expense	12	47	47
Pension contribution	12	-	(144)
Gain on sale of plant and equipment	15	(76)	-
		4,915	4,441
Net change in non-cash working capital:			
Trade and other receivables		(2,076)	737
Income taxes		(604)	135
Prepaid expenses		1,006	73
Trade payables and accrued liabilities		(614)	884
Provisions		(431)	1,245
Net cash provided by operating activities		2,196	7,515
INVESTING ACTIVITIES			
Purchase of investments		(29)	(139)
Purchase of plant and equipment		(499)	(1,024)
Proceeds on disposal of plant and equipment		151	-
Net cash used in investing activities		(377)	(1,163)
FINANCING ACTIVITIES			
Interest paid, net		(4)	(352)
Repayment of long-term liabilities		(95)	(8,309)
Net cash used in financing activities		(99)	(8,661)
Effect of exchange rate changes on cash		(6)	(10)
CHANGE IN CASH AND CASH EQUIVALENTS		1,714	(2,319)
Cash and cash equivalents, beginning of period		10,324	5,072
Cash and cash equivalents, end of period		\$ 12,038	\$ 2,753
Supplemental information			
Income taxes paid		\$ 1,700	\$ -

See accompanying notes to the interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2011 AND 2010

(unaudited)

(All numbers in thousands of Canadian dollars)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

General business description

Automodular Corporation is a Canadian-based company which is listed on the Toronto Stock Exchange (the "TSX"). References to "Automodular" or "the Company" refer to Automodular Corporation and its direct and indirect subsidiaries unless the content indicates otherwise. Automodular was incorporated under the laws of the Province of Ontario and its registered address is 235 Salem Road South, Unit 6, Ajax, Ontario.

Automodular is a sequencer and sub-assembler of modules that are installed in vehicles assembled by North American Original Equipment Manufacturers ("OEMs") at plants in Canada. By sequencing, we mean that the Company delivers the sub-assembled modules, such as an instrument panel or a powerpack, 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.

Basis of preparation

These interim consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting and by IFRS 1 - First-time Adoption of IFRS. These interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The Company's interim consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which differs in some areas from IFRS. In preparing these interim financial statements, management has amended certain accounting and valuation methods related to the approach to the impairment of assets previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in Note 20 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on Shareholders' equity, earnings and comprehensive income. These financial statements have been prepared on a going concern basis. The policies applied in these interim consolidated financial statements are based on IFRS effective as of May 11, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

Similar to Canadian GAAP, the preparation of consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2011 AND 2010

(unaudited)

(All numbers in thousands of Canadian dollars)

Principles of consolidation

The financial statements of Automodular Corporation include the accounts of its wholly-owned subsidiaries, Tec-Mar Distribution Services, Inc. and Automodular Assemblies (Ohio) Inc. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries

Subsidiaries, including special purpose entities, are entities over which Automodular Corporation has control, where control is defined as the power to govern financial and operating policies. Automodular Corporation owns directly or indirectly one hundred percent of the voting rights in its subsidiaries.

The effect of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to Automodular Corporation, and are deconsolidated from the date control ceases.

Foreign currency

Financial statements are presented in Canadian dollars, which is the Company's presentation currency. References to "\$" are to Canadian dollars.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operated (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity, are recognized in the statement of operations, except for qualifying cash flow hedges which are deferred in accumulated other comprehensive income in shareholders' equity.

Monetary assets and liabilities are translated at the rate of exchange in effect at the statement of financial position 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 earnings.

The financial statements of entities that have a functional currency different from that of Automodular Corporation ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized through earnings.

As a result of the closure of the Company's final US-based operation in June, 2010, the Company recorded a charge of \$5.6 million, in that period, in respect of the realization of the cumulative translation loss.

STATEMENT OF FINANCIAL POSITION ITEMS

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2011 AND 2010

(unaudited)

(All numbers in thousands of Canadian dollars)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Cash and cash equivalents	Loans and receivables
Investments	Available for sale
Trade and other receivables	Loans and receivables
Trade payables and accrued liabilities	Financial liabilities
Provisions	Financial liabilities

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with an original maturity at the date of purchase of three months or less.

Investments

Investments consist of marketable securities which have been classified as available for sale and recorded at fair value, with unrealized gains and losses recorded in other comprehensive income. Fair values of these instruments has been determined using the period end market price of the investment per the Toronto Stock Exchange.

Trade and other receivables

Trade receivables are amounts due from customers from the rendering of services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The Company updates its estimate 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.

Trade payables and accrued liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Prepaid expenses

Prepaid expenses represent amounts paid for which the Company will obtain benefits in a future period.

Plant and equipment

Plant and equipment is stated at historical cost less any accumulated amortization and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds the cost of replacing parts of an item of plant and equipment to the carrying amount of that item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the

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Company. The carrying amount of the replaced part is removed. All other repairs and maintenance are charged to earnings during the period in which they are incurred.

Amortization on assets is charged so as to allocate the cost of the assets less their residual value over their estimated useful lives, using the diminishing balance method, at effective annual rates as follows:

Leasehold improvements	20% to 30%
Manufacturing equipment	20% to 35%
Automotive equipment	30%
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.

The assets' residual values, useful lives and amortization methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Assets associated with cash generating units ("CGU") would be written down immediately to its recoverable amount if the CGU's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other expense (income) in the consolidated statement of operations.

Other assets

The Company sponsors a defined benefit pension plan for a member of its executive team. The net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit actuarial cost method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of operations. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in the statement of operations. For the funded plan, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Long-term liabilities

Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease according to the definitions noted below. Classification is re-assessed if the terms of a lease are changed.

Operating lease

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments under an operating lease (net of any incentives received from the

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lessor) are recognized in the statement of operations on a straight-line basis over the period of the lease. Operating lease commitments are disclosed in Note 19.

Finance lease

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments and the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the interest expense and the liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Term debt

Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds (net of transactions costs) and the redemption value recognized in the consolidated statement of operations over the term of the debt using the effective interest method. Interest on indebtedness is expensed as incurred unless capitalized for qualifying assets in accordance with IAS 23, *Borrowing Costs*.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least twelve months after the end of the reporting period.

Deferred financing fees

The Company nets any transaction costs related to the issuance of long-term liabilities against the carrying value of such instruments, 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, net.

Interest rate swap

The interest rate swap was classified as a hedge and recorded at fair value in trade payables and accrued liabilities, with unrealized gains and losses, net of tax, recorded in other comprehensive income (loss). Upon settlement of the hedged item and the interest rate swap in March, 2010, all gains and losses were realized through the statement of operations.

Capital stock

Capital stock represents amounts paid by shareholders on issuance of common shares of Automodular Corporation, net of transaction costs.

LTIP

The Company has a Performance Share Unit Plan for Designated Participants of Automodular Corporation and its Subsidiaries (the "Plan" or "LTIP"). For accounting purposes, the Plan is a special purpose entity and is consolidated in the accounts of the Company. The compensation expense for the LTIP is being recorded over the vesting period. All shares purchased under the LTIP are deducted from the weighted average common shares outstanding for the purposes of earnings per share calculations. The calculation is detailed in Note 10.

Contributed surplus

The Company's contributed surplus balance is composed of the income tax effect of certain inter-corporate capital transactions and compensation expense previously recorded on stock options granted.

Other comprehensive income (loss)

Other comprehensive income (loss) is included on the statement of shareholders' equity and of comprehensive income (loss), and includes the unrealized gains and losses (net of tax) on the investments and foreign currency translation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

(All numbers in thousands of Canadian dollars)

Comprehensive income

The Company's comprehensive income (loss) is composed of net earnings (loss) and other comprehensive income (loss).

STATEMENT OF OPERATIONS ITEMS

Revenue recognition

Automodular enters into agreements with customers to provide services at the beginning of a vehicle's life. Although such agreements do not provide for minimum quantities, once we enter into such agreements, we are generally required to fulfill our customers' purchasing requirements for the length of the commercial agreement. In general, these agreements may be terminated by our customer for convenience at any time. In certain instances, we may be committed under existing agreements to supply services to our customers at selling prices which are not sufficient to cover the direct cost of production. In such situations, we would consider if these meet the definition of an onerous contract.

We recognize revenues based on the pricing terms included in our commercial agreements as the components are shipped to our customers if the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

We are often asked to provide our customers with annual cost reductions as part of certain agreements. We accrue for such amounts as a reduction in revenue as the components are shipped to our customers. In addition, we have ongoing adjustments to our pricing arrangements with our customers based on the adjustments to content (scope creep) and other commercial factors. Such pricing accruals are adjusted as they are settled with our customers. In some situations these adjustments can arise with retroactive pricing and are recognized when there is agreement with the parties involved.

Costs of sales and other expenses

Labour and related costs, freight and facility-related costs comprise the majority of these costs.

Impairments

Impairments are recorded when the recoverable amount of CGU is less than its carrying amount. The recoverable amount is the higher of a CGU's fair value less cost to sell or its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

The carrying values of non-financial assets with finite lives, such as plant and equipment, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Preproduction costs

Preproduction costs are costs incurred in establishing new production lines and facilities which require substantial time to reach commercial production capability. All preproduction costs are expensed as incurred.

Exit costs

Exit costs represent amounts incurred following the expiry or termination of customer contracts and primarily include employee severance/termination costs and facility-related costs.

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current

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(unaudited)

(All numbers in thousands of Canadian dollars)

employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Bonus plans

Liabilities for bonuses are recognized based on a formula that takes into consideration key performance metrics established by management and whether or not these criteria have been met at the reporting date. The Company recognizes an accrual where contractually obliged, or where there is a past practice that has created a constructive obligation to make such compensation payments.

Taxation

Tax expense is composed of current and deferred tax. Tax is recognized in the statement of operations except to the extent it relates to items recognized in other comprehensive income (loss) or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The current tax balance is shown as income taxes recoverable/payable on the statement of financial position.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are recognized for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Earnings per share

Basic

Basic earnings per share is calculated by dividing the earnings or loss by the weighted average number of shares outstanding during the period. For the purpose of calculating basic earnings per share, the number of shares shall be the weighted average number of shares outstanding during the period adjusted for events, other than the conversion of potential shares that have changed the number of shares outstanding, without a corresponding change in resources.

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Diluted

In calculating diluted earnings per share, an adjustment is made to the earnings or loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares.

Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

2. CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Amortization of plant and equipment

Automodular considers the amortization policy relating to plant and equipment to be a "critical accounting estimate". Automodular considers the expected life of the assets, expected residual value, and contract length when setting the amortization rate of its assets. The carrying amount of property and equipment as at March 31, 2011 is \$18.1 million.

Exit costs

Automodular considers exit costs to be a "critical accounting estimate", due to the material nature of amounts generally involved and their inherent uncertainty at the time estimates are made. Accruals have been recorded in conjunction with the expiry or termination of production contracts and include estimates primarily related to severance and facility-related costs. Severance-related estimates are impacted by employees' decisions, Employment Standards Act legislation and existing collective bargaining agreements. As actual costs may vary from these estimates, they are reviewed on a quarterly basis and changes recognized when identified. Included in trade payables and accrued liabilities as at March 31, 2011 is \$0.2 million relating to these costs.

Deferred income tax assets and liabilities

Deferred income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. To the extent that management does not consider it to be probable that a deferred tax asset will be realized, the deferred tax asset will be de-recognized. The Company considers the amount of this de-recognition to be a "critical accounting estimate" as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period which may have a material impact on the Company's financial statements. Factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant changes in events, tax laws, and tax rates beyond the control of the Company may materially affect the financial statements.

As at March 31, 2011, the cumulative deferred tax asset which has been de-recognized in relation to US non-capital losses is \$1.0 million (December 31, 2010 - \$1.0 million and January 1, 2010 - \$1.0 million) and net deferred income tax balance carried on the statement of financial position is \$1.9 million.

Impairment of long-lived assets

Management assesses for impairment of long-lived assets when events and changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company believes that the estimate of impairment for long-lived assets is a "critical accounting estimate" because management is required to make significant forward-looking assumptions when events or circumstances indicating impairment arise. In addition,

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different estimates that could have been used or changes in estimates from period to period may have a material impact on the Company's consolidated financial statements. A fair value less costs to sell model has been used to evaluate cash flows based on recent sales data and independent automotive production volume estimates. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of long-lived assets.

Automodular recorded an impairment charge on its plant and equipment of \$3.2 million in the first quarter of 2010 as a result of GM's ("GM" refers to General Motors Corporation and General Motors of Canada, Limited collectively) termination of the Oshawa-area contracts that supported GM's car operations. There were no material subsequent adjustments made to the impairment charge. Residual assets used in the Oshawa-area operations were sold to third parties or transferred to our Oakville operations for use there.

Defined benefit pension plan

As discussed in Note 12 of the financial statements, Automodular has a defined benefit pension plan for a senior executive of the Company. The Company believes that estimates relating to the discount rates, rate of compensation increase and long-term rate of return on plan estimates constitute a "critical accounting estimate" because of the significant forward-looking assumptions required. Plan assets and obligations are measured using various actuarial assumptions such as discount rates, expected long-term rate of return on plan assets, rate of compensation increase, and retirement age. Automodular utilizes the services of third-party specialists to provide inputs as they relate to these variables. The measurement of the defined benefit pension expense is based on various actuarial assumptions including discount rates, expected return on plan assets and the rate of compensation increase.

We review our actuarial assumptions on an annual basis and modify these assumptions when appropriate. The last actuarial valuation was completed as of January 1, 2011.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting standards issued but not yet applied

International Financial Reporting Standard 9, *Financial Instruments*

IFRS 9 was issued in November, 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through earnings. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through earnings or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in earnings; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October, 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through earnings would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

In May, 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interest in Other Entities* ("IFRS 12"), IFRS 13, *Fair Value Measurement* ("IFRS 13") and amended both IAS 27, *Separate Financial Statements* ("IAS 27") and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28").

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Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards may have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

International Financial Reporting Standard 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

International Financial Reporting Standard 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

International Financial Reporting Standard 13, Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

4. TRADE AND OTHER RECEIVABLES

The Company adjusts trade receivable balances, through an allowance 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 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 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. The allowance for doubtful accounts, as at March 31, 2011, was \$59 (December 31, 2010 - \$53 and January 1, 2010 - \$55).

The aging of accounts receivable balances (net of allowance for doubtful accounts) was as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 12,096	\$ 9,653	\$ 14,555
Past due 0 - 30 days	70	254	942
Over 30 days past due	1,373	1,551	1,777
	\$ 13,539	\$ 11,458	\$ 17,274

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5. ECONOMIC DEPENDENCE

The Company has long-term contracts with Ford Motor Company ("Ford"). The Company's sales are dependent on the production volumes of Ford. At January 1, 2010, the Company had long-term contracts with Ford and GM and its sales were dependent on both Ford and GM. As at March 31, 2011, 97.1% of trade and other receivables (December 31, 2010 - 90.2% and January 1, 2010 - 98.2%) were due from Ford. The January 1, 2010 figure reflects GM and Ford receivables.

6. PLANT AND EQUIPMENT

Plant and equipment consist of the following:

	Leasehold improvements \$	Manufacturing equipment \$	Automotive equipment \$	Other equipment & furniture \$	Open capital projects \$	Total \$
Cost:						
January 1, 2010	5,525	37,009	856	6,702	1,299	51,391
Additions	73	1,361	18	571	853	2,876
Disposals	(3,394)	(10,180)	(649)	(2,122)	(855)	(17,200)
December 31, 2010	2,204	28,190	225	5,151	1,297	37,067
Additions	27	319	-	244	(91)	499
Disposals	-	(26)	-	-	(44)	(70)
March 31, 2011	2,231	28,483	225	5,395	1,162	37,496
Accumulated amortization						
January 1, 2010	4,081	16,613	503	3,762	-	24,959
Amortization & impairment	322	5,248	58	859	-	6,487
Disposals	(3,194)	(7,556)	(464)	(1,860)	-	(13,074)
December 31, 2010	1,209	14,305	97	2,761	-	18,372
Amortization & impairment	53	836	7	158	-	1,054
March 31, 2011	1,262	15,141	104	2,919	-	19,426
Carrying amount:						
January 1, 2010	1,444	20,396	353	2,940	1,299	26,432
December 31, 2010	995	13,885	128	2,390	1,297	18,695
March 31, 2011	969	13,342	121	2,476	1,162	18,070

Proceeds from disposals are netted against the related assets' cost and accumulated amortization and included in earnings.

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7. PROVISIONS

	March 31, 2011	December 31, 2010	January 1, 2010
Exit costs	\$ 244	\$ 706	\$ 2,044
Decommissioning liabilities	189	159	37
	\$ 433	\$ 865	\$ 2,081

8. CREDIT FACILITIES

The Company's \$10,000 revolving credit facility expired October 5, 2010 and was not renewed by management. Notwithstanding this expiry, the Bank of Nova Scotia continues to hold a first charge on the Company's assets, properties and undertakings.

9. LONG-TERM LIABILITIES

	March 31, 2011	December 31, 2010	January 1, 2010
Canadian dollar term credit facility bearing interest at lender's floating base rate was repaid in full on March 31, 2010. The effective interest rate was 4.6%.	\$ -	\$ -	\$ 2,667
Canadian dollar term credit facility bearing interest at a floating rate, based on LIBOR was repaid in full on March 31, 2010. Until that date the Company was committed to an interest rate swap agreement relating to this debt which subjected the Company to a fixed rate of 8.29%. The balance as at January 1, 2010 is net of \$72 in deferred financing charges.	\$ -	\$ -	\$ 5,440
Capital leases with an effective interest rate of 8.8%, repayable in monthly instalments of \$30, with various maturities through 2012, secured by equipment with an original capital cost of \$1,946.	\$ 603	\$ 698	\$ 1,156
	\$ 603	\$ 698	\$ 9,263
Deduct: current portion	\$ 399	\$ 390	\$ 6,900
	\$ 204	\$ 308	\$ 2,363

Until March 31, 2010, the Company was subject to market interest rate risks, as its credit facilities bore interest at rates that depended on certain financial ratios of the Company and varied in accordance with borrowing rates in Canada. The Company managed its market interest rate risk through the use of an interest rate swap for a portion of its outstanding long-term indebtedness. On March 31, 2010, the underlying debt was paid off and the interest rate swap was settled.

10. CAPITAL STOCK

Authorized:

Unlimited number of common shares.

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	Number of shares	\$ Amount
Issued common shares – January 1, 2010	25,949,233	49,832
Shares cancelled following Substantial issuer bid (net)	(5,555,554)	(5,262)
Issued common shares December 31, 2010 and March 31, 2011	20,393,679	44,570

In June, 2010, Automodular announced a Substantial issuer bid (“SIB”) pursuant to which the Company offered to repurchase for cancellation up to \$5 million in value of its outstanding common shares from shareholders. The offer was by way of a modified “Dutch Auction” and the range of offer prices was \$0.90 to \$1.10 per share. The offer closed in the third quarter. A total of 20,246,269 shares were deposited to the offer, with a total of 19,846,009 shares tendered at a price of \$0.90 per share. A total of 5,555,554 shares were taken up as a result of the offer. The total cost of the offer was \$5.3 million including transaction costs (net of tax) and has been treated as a reduction in capital stock.

There were no common shares issued in 2010 or in the first quarter of 2011.

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 or outstanding during 2010 or during the first quarter of 2011.

Long-term incentive plan

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. 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 vested on or about December 31, 2010. 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 was shown as a reduction in shareholders’ equity.

On August 12, 2008, the Board of Directors approved an additional contribution of \$500 to the 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).

On November 30, 2010, a total of 49,624 shares vested and were subsequently distributed to participants of the Plan. On December 31, 2010, a further 99,256 shares vested and were subsequently distributed to participants of the Plan. Following these distributions, the Plan holds 388,673 shares.

In the first quarter of 2011, compensation expense of \$54 (2010 - \$94) was recognized in respect of awards under this plan.

Dividends

No dividends were declared or paid in the first quarter of 2011 or 2010.

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Weighted average common shares outstanding

	March 31, 2011	March 31, 2010
Issued common shares	20,393,679	25,949,233
Less: weighted average treasury shares held by the LTIP	(416,245)	(537,553)
Weighted average common shares outstanding - basic	19,977,434	25,411,680
Effect of dilutive securities:		
LTIP shares – performance metrics met but not vested	169,524	184,012
Weighted average common shares outstanding – fully diluted	20,146,958	25,595,692

11. 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.

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 may consider increasing its level of indebtedness relative to cash flow to assist in the financing of new contract awards.

Prior to the full repayment of all bank loans on March 31, 2010, the Company was subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. One such ratio was the total debt / EBITDA ratio, as defined in the credit agreement with the lender. EBITDA was defined as net earnings for the period plus interest expense (net), income taxes, foreign exchange gain (loss) and amortization. The ratio allowed for a twelve-month rolling period was not to exceed 2.0. For the rolling twelve-month period ended March 31, 2010, this ratio was calculated at 0.1.

The Company was 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, was rolling EBITDA as defined above less unfunded capital expenditures, permitted distributions and consolidated income expenses. Fixed charges were defined as scheduled principal repayments and interest expenses. The minimum ratio allowed for a twelve-month rolling period was 1.5. For the rolling twelve-month period ended March 31, 2010, this ratio was calculated at 3.6.

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 earnings 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 usually requires payment between a four and seven-week time frame.

12. PENSION PLANS

The Company has a defined benefit pension plan for a senior executive of the Company. The plan is valued under IAS 19, Employee Benefits, by independently qualified actuaries using the projected unit credit method. Information about the defined benefit plan as at December 31, 2010 was detailed in the Company's 2010 annual report. The Company obtains a report as at December 31st of each year and as such, updates the detailed information in its annual report. For interim reporting purposes, the Company expenses an estimated amount, based upon the prior years' experience. The expense for the first quarter of 2011 was \$47 (2010 - \$47).

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The Company provides a former 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 trade payables and accrued liabilities include \$0.3 million in respect of this obligation.

13. CONTRACT TERMINATIONS AND EXPIRIES

Exit Costs

2011

Montecorte: During the current quarter, the Company incurred ongoing facility charges of \$345. During March, 2011, the Company entered into a buy-out agreement with the facility's landlord and incurred a one-time charge of \$644.

2010

Thornton: Subsequent to March 31, 2010 General Motors of Canada Limited's announced the termination of Automodular's Oshawa-area contracts for the Chevrolet Camaro effective September, 2010. As a result of this termination Automodular recorded severance for hourly and salaried workers of \$1.5 million in the first quarter of 2010.

Montecorte: During the first quarter of 2010, the Company incurred ongoing facility charges of \$320.

Plant and equipment impairment charge

Thornton: Automodular reviewed the carrying value of its Oshawa-area property and equipment taking into account expected future cash flows and expected proceeds on sale or alternate use upon contract termination using a fair value less costs to sell approach. At March 31, 2010, the net book value of property and equipment before the impairment charge was \$6.4 million and an impairment charge of \$3.2 million was recorded.

14. INTEREST EXPENSE, NET

The components of interest expense, net, include interest expense (income) and other finance costs as follows:

	For the three months ended March 31	
	2011	2010
Interest expense on long-term liabilities	\$ 13	\$ 284
Less: Net gain on close out of swap	-	(75)
Less: Interest income on cash and cash equivalents	(6)	(1)
Interest expense, net	\$ 7	\$ 208

15. OTHER EXPENSE (INCOME)

The components of other expense (income) include the following:

	For the three months ended March 31	
	2011	2010
(Gain) on disposal of plant and equipment	\$ (76)	\$ -
Loss on foreign exchange	1	6
Other expense (income)	\$ (75)	\$ 6

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16. TAXATION

The consolidated effective tax rates in respect of continuing operations for the three months ended March 31, 2011 and 2010 were 28% and 32%, respectively. The change in the annualized effective tax rate was primarily due to the Company not recording tax assets on operating losses realized by the Company's U.S. operations during the first quarter of 2010.

17. RELATED PARTY TRANSACTIONS

Financing 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 \$7,000 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 his 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. The term loan was fully repaid during 2010 and the Company chose not to renew the \$10,000 revolving term facility. BNS earned customary banking fees until the revolving term facility expired.

In July 2006, the Company completed a secured \$6 million financing with Roynat Inc., a wholly-owned subsidiary of BNS, which also owns 100% of SMCC. At such time, SMCC exercised control or direction over 39.9% of the issued and outstanding common shares on 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 his interest in the transaction and refrained from voting on the matter. The financing was used for the purchase of capital assets required for the Company's program for Ford in Oakville, Ontario. Roynat Inc. earned customary banking fees until March 31, 2010, when the debt was repaid in full.

Compensation of key management personnel

Key management personnel compensation, including the Company's directors and members of its executive management team, is as follows:

	For the three months ended March 31	
	2011	2010
Salaries, fees and other benefits	\$ 612	\$ 645

18. SEGMENT INFORMATION

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

	As at and for the quarter ended March 31			As at January 1,	
	2011		2010	2010	
	Sales	P&E	Sales	P&E	
Canada	\$ 20,760	\$ 18,070	\$ 24,113	\$ 26,432	
United States	-	-	688	-	
	\$ 20,760	\$ 18,070	\$ 24,801	\$ 26,432	

The impairment charge recorded in 2010 related to the Canadian segment.

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19. CONTINGENCIES AND COMMITMENTS

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.

Trade payables and accrued liabilities, provisions and long-term liabilities

The following are the undiscounted contractual maturities of trade payables and accrued liabilities, provisions and long-term liabilities as at March 31, 2011:

	Total	Less than 1 year	1 to 2 years	After 2 years
Trade payables and accrued liabilities	\$ 6,688	\$ 6,688	\$ -	\$ -
Provisions	433	433	-	-
Long-term liabilities	603	399	204	-
	\$ 7,724	\$ 7,520	\$ 204	\$ -

Operating leases

All of the Company's facilities are subject to operating leases. The Company also has operating lease commitments for equipment. Future operating lease commitments are shown below. Substantially all of the operating lease commitments relate to facility rentals. Commitments include US and CDN amounts and are denominated in the table below in Canadian dollars.

Balance of 2011	\$ 2,338
2012	3,037
2013	1,856
2014	1,665
2015	1,656
Thereafter	276
Total	\$ 10,828

Payments on current operating leases over the next twelve months are \$3,089.

20. TRANSITION TO IFRS

The Company's annual financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these interim consolidated financial statements were prepared as described in Note 1, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

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Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

- A. Employee benefits – IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, Employee Benefits, for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening retained earnings for its employee benefit plan, which resulted in the recognition of actuarial losses of \$127.
- B. Currency translation differences - Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date, which resulted in a recognition of cumulative translation losses of \$5,557.
- C. Borrowing costs - IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Early adoption is permitted. The Company elected not to early adopt this policy. Therefore, borrowing costs prior to January 1, 2010 are expensed, which is consistent with the Company's previous accounting policy.

IFRS Mandatory Exceptions

Set forth below are the applicable IFRS 1 exceptions applied in the conversion from Canadian GAAP to IFRS.

- a. Hedge accounting- Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfied the hedge accounting criteria as of its Transition Date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were fair valued and recorded in the statement of financial position as a non-hedging derivative financial instrument.
- b. Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income:

Reconciliation of Equity

<i>(in thousands of Cdn dollars)</i>	December 31, 2010	March 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP	\$ 33,239	\$ 37,194	\$ 37,589
Differences increasing (decreasing) reported shareholders' equity:			
Amortization & impairment of P&E	(1,559)	(1,422)	(1,450)
Employee benefits	(127)	(127)	(127)
Income taxes	433	390	394
Total equity under IFRS	\$ 31,986	\$ 36,035	\$ 36,406

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Reconciliation of Earnings (Loss)

<i>(in thousands of Cdn dollars)</i>	December 31, 2010	March 31, 2010
Net earnings (loss) under Canadian GAAP	\$ (734)	\$ (202)
Differences increasing (decreasing) reported net earnings (loss):		
Amortization of plant and equipment	(254)	(28)
P&E impairment charge	145	56
Income taxes	39	(4)
Foreign exchange	5,557	-
Net earnings (loss) under IFRS	\$ 4,753	\$ (178)

Reconciliation of Comprehensive Income (Loss)

<i>(in thousands of Cdn dollars)</i>	December 31, 2010	March 31, 2010
Comprehensive income (loss) under Canadian GAAP	\$ 4,518	\$ (489)
Differences increasing (decreasing) reported comprehensive income (loss):		
Increases (decreases) in net earnings	5,487	24
Foreign currency translation	(5,559)	-
Comprehensive income (loss) under IFRS	\$ 4,446	\$ (465)

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

I. PLANT AND EQUIPMENT

The net book value of certain items of plant and equipment changed upon conversion to IFRS compared to the carrying value reported under Canadian GAAP. This change is primarily due to a change on the date on which plant and equipment start being amortized. Under Canadian GAAP, the assets were amortized beginning on the date that commercial production levels were reached. Whereas under IFRS, the assets are to be amortized beginning when they are ready for commercial use. The overall impact is a decrease in the carrying value of plant and equipment of \$1,450 as at January 1, 2010 (\$1,559 as at December 31, 2010).

II. EMPLOYEE FUTURE BENEFITS

As stated in the section entitled "IFRS Exemption Options," the Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening deficit for its employee benefit plan. The Company realized \$127 resulting from this election.

Under Canadian GAAP, the Company deferred and amortized actuarial gains and losses from defined benefit plans using the corridor method. Under IFRS the Company recognizes gains and losses in each period as they arise in other comprehensive income. The change in policy did not have a significant impact on the Company's financial statements.

III. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has prospectively applied hedge accounting to those hedging relationships that satisfied the hedge accounting criteria of IAS 39 at its Transition Date in accordance with the transition requirement of IFRS. There was no impact on the Company's financial statements.

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IV. IMPAIRMENTS

IFRS and Canadian GAAP utilize different approaches to impairment testing. Canadian GAAP utilizes a two-step approach to impairment testing by first comparing undiscounted future cash flows to determine whether impairment exists and then measuring impairment by comparing asset values to their fair values. IFRS uses a one-step approach for testing and measuring impairment with asset carrying values compared directly with the higher of fair value less costs to sell and value in use, which is calculated using discounted cash flows. In addition, Canadian GAAP does not allow any asset impairment losses to be reversed while IFRS requires reversal if certain criteria are met. Upon final review of the transitional calculations, the Company has determined there will be no material adjustments required in the Company's transitional statement of financial position above the amount previously recognized by the Company under Canadian GAAP.

V. PROVISIONS

The Company's accounting policy under Canadian GAAP was to recognize a provision when it was "likely" that a future event will confirm that a liability had been incurred. The term "likely" in this context is a higher recognition threshold than "more likely than not" which is used under IFRS. The term "contingent liability" under Canadian GAAP refers to both recognized and unrecognized uncertain obligations. Canadian GAAP does not have separate terms to describe contingent liabilities that meet the recognition criteria versus those that do not. As a result of transitioning to IFRS, the statement of financial position contains a new line item entitled "Provisions" and the Company reclassified certain of its provisions from trade payables and accrued liabilities to be reported in this new financial statement line item. There are no additional provisions recorded as a result of transitioning to IFRS. Total provisions on the statement of financial position as at January 1, 2010 is \$2,081 (\$865 as at December 31, 2010).

VI. INCOME TAXES

The proposed amendments to IAS 12 - *Income Taxes*, require a probability weighted approach in determining the amount de-recognition required for uncertain tax amounts where Canadian GAAP allows alternatives which are a matter of accounting policy. There will be no changes to the financial statements as a result of this change. There is an income tax impact on the opening IFRS statement of financial position as a result of the other adjustments described in this note.

VII. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

As noted in the section entitled "IFRS Exemption Options," the Company has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as of January 1, 2010. The cumulative translation adjustment balance as of January 1, 2010 of \$5.6 million was recognized as an adjustment to deficit. The application of the exemption had no impact on net shareholders' equity.