

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, 2010 and December 31, 2009 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 the recommendation of 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

Ajax, Ontario
March 24, 2011

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AUTOMODULAR COPORATION

We have audited the accompanying consolidated financial statements of **Automodular Corporation**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of earnings and shareholder's equity and comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Automodular Corporation as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles

[signed] **PricewaterhouseCoopers LLP**

Chartered Accountants, Licensed Public Accountants

March 24, 2011

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



CONSOLIDATED BALANCE SHEETS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<i>(All numbers in thousands)</i>	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,324	\$ 5,072
Receivables <i>(Notes 2 & 3)</i>	11,458	17,274
Income taxes recoverable <i>(Note 10)</i>	-	184
Prepaid expenses	2,428	3,631
	<hr/> 24,210	<hr/> 26,161
Marketable securities <i>(Note 2)</i>	305	1,210
Plant and equipment <i>(Note 4)</i>	20,254	27,882
Other asset <i>(Note 12)</i>	641	702
	<hr/> \$ 45,410	<hr/> \$ 55,955
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,168	\$ 8,002
Income taxes payable <i>(Note 10)</i>	1,286	-
Current portion of long-term liabilities <i>(Note 6)</i>	390	6,900
	<hr/> 9,844	<hr/> 14,902
Future income taxes <i>(Note 10)</i>	2,019	1,101
Long-term liabilities <i>(Note 6)</i>	308	2,363
	<hr/> 12,171	<hr/> 18,366
Contingencies, Commitments and Subsequent Event <i>(Notes 14 & 18)</i>		
SHAREHOLDERS' EQUITY	33,239	37,589
	<hr/> \$ 45,410	<hr/> \$ 55,955

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 (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<i>(All numbers in thousands)</i>	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total	Comprehensive income (loss)
Opening balance 2010	\$ 49,832	\$ (593)	\$ 706	\$ (5,557)	\$ (6,799)	\$ 37,589	\$ -
Net earnings (loss)	-	-	-	-	(734)	(734)	(734)
Realization of cumulative translation loss <i>(Note 17)</i>	-	-	-	5,559	-	5,559	5,559
Unrealized gain (loss) on marketable securities <i>(Note 2)</i>	-	-	-	(240)	-	(240)	(240)
Unrealized gain (loss) on interest rate swap <i>(Notes 2 & 14)</i>	-	-	-	(67)	-	(67)	(67)
Shares repurchased under SIB <i>(Note 7)</i>	(5,262)	-	-	-	-	(5,262)	-
Dividends paid (net) <i>(Note 7)</i>	-	-	-	-	(3,981)	(3,981)	-
Compensation expense <i>(Note 7)</i>	-	375	-	-	-	375	-
Closing balance 2010	\$ 44,570	\$ (218)	\$ 706	\$ (305)	\$ (11,514)	\$ 33,239	
Total comprehensive income							\$ 4,518

	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total	Comprehensive income (loss)
Opening balance 2009	\$ 49,832	\$ (843)	\$ 706	\$ (5,739)	\$ (9,473)	\$ 34,483	\$ -
Net earnings	-	-	-	-	2,674	2,674	2,674
Foreign currency translation	-	-	-	50	-	50	50
Unrealized gain (loss) on marketable securities <i>(Note 2)</i>	-	-	-	(17)	-	(17)	(17)
Unrealized gain on interest rate swap <i>(Notes 2 & 14)</i>	-	-	-	149	-	149	149
Compensation expense <i>(Note 7)</i>	-	250	-	-	-	250	-
Closing balance 2009	\$ 49,832	\$ (593)	\$ 706	\$ (5,557)	\$ (6,799)	\$ 37,589	
Total comprehensive income							\$ 2,856

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

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010	2009
Sales (Note 16)	\$ 88,113	\$ 75,261
Cost of sales and other expenses	63,441	57,957
Preproduction costs	1,378	1,787
Exit costs (Note 16)	5,638	4,349
Earnings from operations before the following:	17,656	11,168
Amortization	6,322	7,230
Plant and equipment impairment charge (Note 16)	3,250	-
Interest expense, net	294	813
Realization of cumulative translation loss (Note 17)	5,559	-
Other expense (income) (Note 9)	565	(312)
	15,990	7,731
Earnings before income taxes	1,666	3,437
Income taxes (Note 10)	2,400	763
Net earnings (loss) for the year	\$ (734)	\$ 2,674
Earnings (loss) per share -		
Basic and diluted	\$ (0.03)	\$ 0.11
Weighted average common shares outstanding		
Basic and diluted (Note 7)	23,041,466	25,411,680

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<i>(All numbers in thousands)</i>	2010	2009
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net earnings (loss) for the year	\$ (734)	\$ 2,674
Items not involving current cash flows:		
Amortization	6,322	7,230
Plant and equipment impairment charge <i>(Note 16)</i>	3,250	-
Future income taxes	918	862
Compensation expense <i>(Note 7)</i>	375	250
Amortization of financing fees	72	44
Unrealized gain (loss) on interest rate swap <i>(Notes 2 & 14)</i>	(67)	149
Loss on foreign exchange <i>(Note 9)</i>	28	9
Pension expense <i>(Note 12)</i>	204	195
Pension contribution <i>(Note 12)</i>	(144)	(131)
Realization of cumulative translation loss <i>(Note 17)</i>	5,559	-
(Gain) loss on disposal of marketable securities <i>(Note 9)</i>	514	(318)
(Gain) loss on disposal of plant and equipment <i>(Note 9)</i>	23	(3)
	16,320	10,961
Net change in non-cash working capital:		
Receivables	5,878	(4,992)
Income taxes	1,486	778
Prepaid expenses	1,216	181
Accounts payable and accrued liabilities	168	(1,354)
	25,068	5,574
INVESTING ACTIVITIES		
Purchase of marketable securities	(187)	(1,574)
Proceeds on disposal of marketable securities	345	661
Purchase of plant and equipment	(2,876)	(3,145)
Proceeds on disposal of plant and equipment	909	30
	(1,809)	(4,028)
FINANCING ACTIVITIES		
Shares repurchased under Substantial issuer bid (gross) <i>(Note 7)</i>	(5,374)	-
Dividends paid (net) <i>(Note 7)</i>	(3,981)	-
Repayment of long-term liabilities <i>(Note 6)</i>	(8,637)	(2,506)
	(17,992)	(2,506)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
	(15)	(84)
CHANGE IN CASH AND CASH EQUIVALENTS		
	5,252	(1,044)
Cash and cash equivalents, beginning of year	5,072	6,116
Cash and cash equivalents, end of year	\$ 10,324	\$ 5,072

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2010 AND 2009

(All numbers in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION

The consolidated financial statements of Automodular Corporation and its subsidiaries (“Automodular” or the “Company”) have been prepared following Canadian generally accepted accounting principles (“GAAP”). The consolidated financial statements include the accounts of Automodular Corporation consolidated with those of its wholly-owned subsidiaries, Tec-Mar Distribution Services, Inc. and Automodular Assemblies (Ohio) Inc.

All inter-company transactions and balances have been eliminated on consolidation.

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 the 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.

International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board confirmed that Canadian public companies would have to adopt IFRS effective for the fiscal years beginning on or after January 1, 2011. Commencing in the first quarter of 2011, the Company’s financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and the January 1, 2010 opening balance sheet restated to conform with IFRS, along with reconciliations from GAAP to IFRS, as per the guidance provided in IFRS 1, “First-Time Adoption of International Financial Reporting Standards”.

As part of its transition to IFRS, the Company has substantially completed its implementation plan which included an extensive analysis of accounting differences between GAAP and IFRS and the assessment of the impact of the accounting differences on its consolidated financial statements. The Company has determined that there will not be a significant impact on its financial results as a result of transitioning to IFRS. As part of its IFRS implementation plan, the Company continually reviewed the impact on its business activities, its disclosure and internal controls over financial reporting and its financial reporting systems and made adjustments where necessary to ensure the Company would be compliant with both its new IFRS accounting policy and the required disclosures going forward. Additional details regarding IFRS are contained in the Management Discussion & Analysis.

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.

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.

Marketable securities

Marketable securities have been classified as available for sale in accordance with the *Canadian Institute of Chartered Accountants* (“CICA”) *Handbook* section 3855, “Financial Instruments” and recorded at fair value, with unrealized gains and losses recorded in other comprehensive income (loss).

Plant and equipment

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 and ranging as follows:

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

Plant and equipment 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.

Preproduction costs

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

Other assets

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.

Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. The costs of assets acquired under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest. Operating leases are expensed on a straight-line basis.

Long-term liabilities

Financial liabilities are recorded at amortized cost.

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. Upon repayment of all term credit facilities in March, 2010 all remaining deferred financing fees were recognized as interest expense.



Other financial instruments

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 income (loss) until realized, at which time they will be recorded in the consolidated statements of operations. 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.

Interest rate swap

The interest rate swap was classified as a hedge in accordance with the *CICA Handbook* section 3865, "Hedge Accounting" and recorded at fair value in accounts payable and accrued liabilities, with unrealized gains and losses (net of tax) recorded in other comprehensive income (loss). Upon settlement in March, 2010, all gains and losses were realized through the consolidated statements of operations.

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 variable interest entity and is consolidated in the accounts of the Company. Any dividends paid to the LTIP have been eliminated on consolidation. The compensation expense for 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 7(f).

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 consolidated statement of shareholders' equity and comprehensive income (loss), and includes any unrealized gains and losses on marketable securities, the interest rate swap and foreign currency translation.

Comprehensive income (loss)

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

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.

During the period in which the Company had active operations in the US, it considered them 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 were deferred and included in the foreign currency translation account in shareholders' equity until May, 2010 when the final US operation ceased. Subsequent to this closure the foreign currency translation amount was reported

on the consolidated statement of operations. All gains or losses on translation from that date forward have been recognized in other expense (income) on the consolidated statements of operations.

Income taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under this method, 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 (loss) per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, which assumes that any options or warrants are exercised and that the proceeds would be used to purchase common shares at the average market price during the year. There are currently no options or warrants issued or outstanding.

2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities, accounts payable and accrued liabilities and long-term liabilities.

a) Fair value of financial instruments

The estimated fair values of the Company's financial instruments are as follows:

Current financial assets and liabilities

Financial assets and liabilities classified as current are amounts that are expected to be settled within one year. The carrying amounts in the consolidated balance sheets approximate fair value because of the short-term nature of these instruments.

Derivative financial instruments

The Company was committed to an interest rate swap agreement on a portion of its Canadian dollar denominated term debt until its settlement on March 31, 2010. At December 31, 2009, the fair market value of the contract was a liability of \$160 using a quotation provided by a major Canadian financial institution.

Long-term investments

As at December 31, 2010, the Company held \$305 (2009 - \$1,210) in marketable securities which have been designated as available for sale. Fair values of these instruments have been determined using the year end market price of the investment per the Toronto Stock Exchange.

Long-term debt

The fair value of the long-term debt (including the current portion) as at December 31, 2010 was \$698 (2009 - \$9,263) and represents the amounts that would have been paid to counterparties to settle these instruments at the reporting date. The balance at December 31, 2010 represents capital leases owed by the Company; all other long-term debt was repaid in the current year.

The Company categorizes its derivative assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement;



Level 1

Level 1 includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Level 2 includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

Level 3

Level 3 includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value. Generally, Level 3 valuations are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available, or have no binding broker quote to support Level 2 classification.

When possible the estimated fair value is based on quoted market prices, and, if not available, estimates from third party brokers.

The Company has categorized its financial assets and liabilities measured at fair value as follows:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 10,324	\$ 10,324	\$ -	\$ -
Receivables	11,458	-	11,458	-
Marketable securities	305	305	-	-
	<u>\$ 22,087</u>	<u>\$ 10,629</u>	<u>\$ 11,458</u>	<u>\$ -</u>

	Total	Level 1	Level 2	Level 3
Financial liabilities:				
Accounts payable and accrued liability	\$ 8,168	\$ -	\$ 8,168	\$ -
Long-term debt	698	-	698	-
	<u>\$ 8,866</u>	<u>\$ -</u>	<u>\$ 8,866</u>	<u>\$ -</u>

b) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of receivables and, until March 31, 2010, an interest rate swap. The Company, in the normal course of business, is exposed to credit risk from its customers. The Company was exposed to credit loss in the event of non-performance by counterparties to the interest rate swap.

The Company adjusts trade accounts 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 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, 2010, the allowance for doubtful accounts was \$53 (2009 - \$55).

The aging of accounts receivable balances (net of allowance for doubtful accounts) as at December 31, 2010 was as follows:

	2010	2009
Current:	\$ 9,653	\$ 14,555
Past due 0 – 30 days:	254	942
Over 30 days past due:	1,551	1,777
Total	\$ 11,458	\$ 17,274

c) Liquidity risk

Liquidity is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities 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, 2010:

	Carrying Amount	Less than 1 year	1 to 2 years	After 2 years
Accounts payable and accrued liabilities	\$ 8,168	\$ 8,168	\$ -	\$ -
Long-term debt	698	390	308	-
	\$ 8,866	\$ 8,558	\$ 308	\$ -

d) Market risk

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 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, 2010. As the sensitivity level is hypothetical, it should be used with caution.

Effect of market interest rate fluctuation for the year ended December 31, 2010:

	+100 bps	-100 bps
(Increase) decrease in interest expense	\$ (7)	\$ 7
Increase (decrease) in interest income	13	(13)
Change to net unrealized gain (loss) on interest rate swap	14	(14)
Increase (decrease) in earnings before income taxes	\$ 20	\$ (20)

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. All outstanding long-term debt as at December 31, 2010 relates to capital lease financing with an effective rate of 8.8% (2009 - 8.9%).



3. ECONOMIC DEPENDENCE

At December 31, 2010, the Company has long-term contracts with Ford Motor Company (“Ford”). The Company’s sales are dependent on the production volumes of Ford. At December 31, 2009, the Company had long-term contracts with Ford and GM (“GM” refers to General Motors Corporation and General Motors of Canada, Limited) and its sales were dependent on both Ford and GM.

As at December 31, 2010, 90.2% (2009 – 98.2%) of trade receivables were due from Ford. The 2009 figure reflects GM and Ford receivables.

4. PLANT AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Leasehold improvements	\$ 2,204	\$ 1,209	\$ 995	\$ 5,525	\$ 4,081	\$ 1,444
Manufacturing equipment	28,190	12,785	15,405	37,009	15,165	21,844
Automotive equipment	225	96	129	856	495	361
Other equipment & furniture	5,151	2,723	2,428	6,702	3,768	2,934
Open capital projects	1,297	-	1,297	1,299	-	1,299
	\$ 37,067	\$ 16,813	\$ 20,254	\$ 51,391	\$ 23,509	\$ 27,882

5. 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.

6. LONG-TERM LIABILITIES

	2010	2009
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 for first three months of 2010 was 4.6% (2009 – 5.3%).	\$ -	\$ 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 December 31, 2009 is net of \$72 in deferred financing charges.	-	5,440
Capital leases with an effective interest rate of 8.8% (2009 – 8.9%), repayable in monthly installments of \$38, with various maturities through 2012, secured by equipment with an original capital cost of \$1,962.	698	1,156
	698	9,263
Deduct: current portion	390	6,900
	\$ 308	\$ 2,363

Interest expense on long-term liabilities for the year is \$295 (2009 - \$876).

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

2011	\$	390
2012		308
Total	\$	698

7. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares.

(b) Issued - common shares

	Number of shares	Amount
Issued common shares – 2009	25,949,233	\$ 49,832
Shares cancelled following Substantial issuer bid	(5,555,554)	\$ (5,262)
Issued common shares – December 31, 2010	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 during 2009 or 2010.

(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 to be 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 2009 or 2010.

(d) Long-term incentive plan (“LTIP” or the “Plan”)

On May 10, 2007, the Board of Directors approved the adoption of a Performance Share Unit Plan (the “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 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 have been 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).

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 distributed subsequent to year end to participants of the Plan. Following these distributions, the Plan holds 388,673 shares.

Compensation expense of \$375 was recognized in 2010 (2009 - \$250) in respect of this plan.

(e) Dividends

Dividends declared and paid in 2010 totaled \$4,079 (2009 - nil). Dividends have been reflected net of \$98 in internal dividends paid to LTIP.

(f) Weighted average common shares outstanding

	2010	2009
Issued common shares	25,949,233	25,949,233
Less: weighted average shares cancelled under the SIB	(2,374,429)	-
Less: weighted average treasury shares held for LTIP	(533,338)	(537,553)
Weighted average common shares outstanding	23,041,466	25,411,680

8. 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 loss (gain) and amortization. The ratio allowed for a twelve-month rolling period was not to exceed 2.0. For the rolling twelve-month period ended December 31, 2009, this ratio was calculated at 0.8.

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 December 31, 2009, this ratio was calculated at 2.7.

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.

9. OTHER EXPENSE (INCOME)

	2010	2009
(Gain) loss on disposal of marketable securities	\$ 514	\$ (318)
(Gain) loss on disposal of plant and equipment	23	(3)
Loss on foreign exchange	28	9
	\$ 565	\$ (312)

10. INCOME TAXES

(a) The future income tax liability includes the following temporary differences:

	2010	2009
Plant and equipment and other assets	\$ 3,155	\$ 3,987
Reserves and other temporary differences	(1,136)	(2,886)
	\$ 2,019	\$ 1,101

During 2008, 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 \$8,531 (2009 - \$8,531) in net capital losses available for carry forward, the tax benefit of which has 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 29.0% (2009 - 31.0%) were the following:

	2010	2009
Earnings before income taxes	\$ 1,666	\$ 3,437
Expected income tax expense at statutory rates	\$ 483	\$ 1,056
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	1,764	(64)
Valuation allowance for US future tax assets	80	105
Changes in tax rates	68	(329)
Other	5	(5)
	\$ 2,400	\$ 763

In 2008, the Company recorded a charge of \$863 to establish a full valuation allowance against its remaining US future tax assets. Accounting standards require that the Company assesses 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 future operating losses from US operations. In 2009 and 2010, the Company increased its valuation allowance by \$105 and \$80, respectively.



(c) Provision

The details of the income tax provision are as follows:

	2010	2009
Current provision	\$ 1,434	\$ (147)
Future provision	966	910
	<u>\$ 2,400</u>	<u>\$ 763</u>

11. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Interest paid	\$ 438	\$ 874
Income taxes recovered	\$ (19)	\$ (972)

12. PENSION PLAN

The Company has a defined benefit pension plan for a senior executive of the Company. Information about the defined benefit plan is as follows:

	2010	2009
Total defined benefit pension expense includes:		
Defined benefit plan:		
Service costs (benefits earned during the year)	\$ 109	\$ 89
Interest costs on accrued benefit obligation	120	116
Expected return on plan assets	(96)	(82)
Amortization of transitional obligations	71	72
Total defined benefit pension expense	<u>\$ 204</u>	<u>\$ 195</u>
Pension fund asset is composed of:		
Market value of plan assets at beginning of year	\$ 2,689	\$ 2,281
Employer contributions	144	131
Actual return on plan assets	147	277
Benefit payments	(15)	-
Market value of plan assets at end of year	<u>\$ 2,965</u>	<u>\$ 2,689</u>

	2010	2009
Accrued benefit obligations includes:		
Obligation at beginning of year	\$ 2,186	\$ 1,691
Service costs (benefits earned during the year)	109	89
Interest costs on accrued benefit obligation	120	116
Actuarial loss on accrued benefit obligation	127	290
Benefit payments	(15)	-
Accrued benefit obligations at the end of year	\$ 2,527	\$ 2,186
Funded status at end of year:		
Items not recognized in earnings:	\$ 438	\$ 503
Unrealized transitional obligation	-	72
Unrecognized actuarial gains (losses)	203	127
Pension fund asset	\$ 641	\$ 702

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

	2010	2009
Discount rate	5.25%	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	Nil	1 year

The executive commenced receiving a pension from the Plan in December, 2010. Based on the result of an actuarial valuation completed as of January 1, 2011, funding contributions are expected to be \$51 for 2011.

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 accounts payable and accrued liabilities include \$300 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, 2010, 44% (2009 - 45%) of the plan assets at fair value were deposited in the tax account and 56% (2009 - 55%) were invested.

The balance invested consists of the following allocations:

	Target	2010 Actual	2009 Actual
Fixed income	40%	41%	41%
Canadian equity	50%	50%	50%
US equity	5%	2%	2%
International equity	5%	7%	7%

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



13. 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 \$7,000 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 until the revolving term facility expired.

In July, 2006, the Corporation completed a secured \$6 million financing with Roynat Inc., a wholly-owned subsidiary of The Bank of Nova Scotia which also owns 100% of SMCC. At such time, SMCC exercised control or direction over 39.9% of the issued and outstanding common shares of the Corporation. Andrew Brenton and Garth Davis, directors of the Corporation, were, at such time, Managing Partner and Partner, respectively, of SMCC. Each of Mr. Brenton and Mr. Davis declared his interest in the transaction and refrained from voting on the matter. The financing was used for the purchase of plant and equipment required for the Corporation’s new program for Ford in Oakville, Ontario. This credit facility was to be repaid over a six-year term at lender’s floating base rate plus 4%. In 2010, the effective interest rate was approximately 5.3%. Roynat Inc. earned customary banking fees until March 31, 2010, when the debt was repaid in full.

14. 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 included below have been translated into the Canadian dollar equivalent.

2011	\$	4,226
2012		3,037
2013		1,856
2014		1,665
2015		1,656
Thereafter		276
	\$	12,716

(b) Interest Rate Swap Agreement

On March 31, 2010, upon repayment of the underlying debt, the Company settled its interest rate swap agreement. The agreement subjected the Company to a fixed rate of 8.29% and the counterparty to a floating three-month LIBOR rate plus 3.5%. At December 31, 2009, the fair market value of the contract was a liability of \$160 and was included in accounts payable and other liabilities. No equivalent amount exists as at December 31, 2010. A charge of \$181 was recognized during the year ended December 31, 2009 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 (loss) in accordance with hedge accounting guidelines. Upon settlement of this agreement, a gain of \$181 was recognized and netted against interest expense.

(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.

15. 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 in Canadian dollars.

	2010		2009	
	Sales	P&E	Sales	P&E
Canada	\$ 86,415	\$ 20,254	\$ 73,075	\$ 27,882
United States	1,698	-	2,186	-
	\$ 88,113	\$ 20,254	\$ 75,261	\$ 27,882

16. OSHAWA-AREA CONTRACTS AND EXIT COSTS

2010

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

Severance: Severance expense included in exit costs is \$1.3 million. These costs relate to the transition of Automodular's hourly work force to the supplier taking over the contract and the severance of its salaried employees.

Facility and other related costs: Net facility and other related expenses included in exit costs are \$2.7 million. These costs relate to the de-commissioning and closure of its Oshawa-area facility and include a net amount of \$2.4 million for a payment made to the landlord as a lease termination fee as well as \$0.3 million in other related costs. Automodular returned the facility to the landlord on October 31, 2010 and has no residual obligations with respect to this facility.

Plant and equipment impairment charges: plant and equipment impairment charges incurred during 2010 amounted to \$3.3 million. During the first quarter of 2010, Automodular reviewed the carrying value of its Oshawa-area plant and equipment taking into account expected future cash flows and expected proceeds on sale or alternate use upon contract termination. Based on this analysis, Automodular recorded an impairment charge of \$3.3 million. There have been no subsequent adjustments to this figure.

Other closure costs: comprised primarily of supplies totaling \$0.2 million.

Ohio: Automodular's Ohio-area operations ceased production in June. Salaried and hourly employee severance expense included in exit costs is \$0.2 million.

Montecorte: Automodular continued to incur charges related to its Montecorte facility in 2010, including rent, property taxes and other facilities amounts net of the amortization of the lease inducement previously recorded for this facility. Included in exit costs are facility costs of \$1.2 million.



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

	Accrued Liabilities		
	Severance costs	Facility related costs	Total
Opening balance: January 1, 2010	\$ 832	\$ 1,212	\$ 2,044
Plus: exit costs/adjustments	1,482	4,156	5,638
Less: amounts paid/utilized	(1,991)	(4,985)	(6,976)
Closing balance: December 31, 2010	\$ 323	\$ 383	\$ 706

2009

As a result of the closure of General Motors of Canada Limited's Oshawa Truck Plant in May, 2009, Automodular shut down its Montecorte facility which supported those operations. Costs expensed in 2009 relating to the closure include \$1,781 in estimated severance costs for impacted hourly and salaried employees and \$2,568 in respect of other expected closure costs including but not limited to estimated facility repair costs, residual equipment leases and lease inducement costs over the balance of the facility lease. Plant and equipment with a net book value of \$736 were also written off with the charge reflected as amortization. Automodular reached a commercial agreement with GM to reimburse certain costs related to the closure and recognized revenue of \$2,836.

17. CUMULATIVE TRANSLATION LOSS

As a result of the closure of Automodular's last remaining US-based operation in June, 2010, the Company recorded, in the second quarter, a charge of \$5.6 million in respect of the realization of the cumulative translation loss relating to Automodular's US-based operations. This loss related to the increased strength of the Canadian dollar against the US dollar since the time that the Company purchased its US operations. The loss was partially offset by the realized gain on the US dollar portion of the purchase financing which was fully paid off in 2007. The recognition of this amount essentially reallocates the amount between other comprehensive income (loss) and deficit within shareholders' equity and has no impact on the consolidated balance sheets or cash position of the Company.

18. SUBSEQUENT EVENT

Subsequent to year-end, Automodular entered into an agreement to settle its remaining lease obligations on its Montecorte facility in Whitby, Ontario. Production at the facility ended in 2009, but the lease for the facility was not scheduled to expire until November 21, 2011. Under the terms of the settlement, Automodular provided total consideration to the landlord of \$1.4 million and restored the facility to the condition required by the lease. Amounts expended will be reflected in the first quarter of 2011.