

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, 2009 and December 31, 2008 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

Toronto, Ontario
March 25, 2010

Automodular Corporation

Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

All numbers in thousands, except share and per share data

AUTOMODULAR CORPORATION
CONSOLIDATED BALANCE SHEETS
(ALL NUMBERS IN THOUSANDS)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,072	\$ 6,116
Receivables (<i>Notes 2 and 3</i>)	17,274	12,474
Income taxes recoverable	184	953
Prepaid expenses	3,631	3,810
	26,161	23,353
Marketable securities (<i>Note 2</i>)	1,210	-
Property, plant and equipment (<i>Note 4</i>)	27,882	31,696
Other assets (<i>Note 13</i>)	702	765
	\$ 55,955	\$ 55,814
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,002	\$ 9,373
Current portion of long-term liabilities (<i>Note 7</i>)	6,900	2,554
	14,902	11,927
Future income taxes (<i>Note 11</i>)	1,101	233
Long-term liabilities (<i>Note 7</i>)	2,363	9,171
	18,366	21,331
Contingencies and Commitments (<i>Note 15</i>)		
SHAREHOLDERS' EQUITY	37,589	34,483
	\$ 55,955	\$ 55,814

Signed on behalf of the Board

Director: "Henry J. Knowles "

Director: "Michael F. Blair "

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(ALL NUMBERS IN THOUSANDS)

	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total	Comprehensive income (loss)
December 31, 2008	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 loss on marketable securities <i>(Note 2)</i>	-	-	-	(17)	-	(17)	(17)
Unrealized gain on interest rate swap <i>(Note 2)</i>	-	-	-	149	-	149	149
Compensation expense <i>(Note 8(d))</i>	-	250	-	-	-	250	-
December 31, 2009	49,832	(593)	706	(5,557)	(6,799)	37,589	
Total comprehensive income							<u>2,856</u>

	Capital stock	LTIP	Contributed surplus	Other comprehensive income (loss)	Deficit	Total	Comprehensive income (loss)
Restated December 31, 2007	49,832	(469)	91	(6,645)	(1,052)	41,757	-
Net loss	-	-	-	-	(6,865)	(6,865)	(6,865)
Foreign currency translation	-	-	-	1,038	-	1,038	1,038
Unrealized loss on interest rate swap <i>(Note 2)</i>	-	-	-	(132)	-	(132)	(132)
Income tax effect of capital transactions <i>(Note 11(a))</i>	-	-	615	-	-	615	-
LTIP contribution <i>(Note 8(d))</i>	-	(500)	-	-	-	(500)	-
Dividends <i>(Note 8(e))</i>	-	-	-	-	(1,556)	(1,556)	-
Compensation expense <i>(Note 8(d))</i>	-	126	-	-	-	126	-
December 31, 2008	49,832	(843)	706	(5,739)	(9,473)	34,483	
Total comprehensive loss							<u>(5,959)</u>

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(ALL NUMBERS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	Dec. 31, 2009	Dec. 31, 2008
SALES <i>(Note 17)</i>	\$ 75,261	\$ 82,935
COST OF SALES AND OTHER EXPENSES	57,957	68,941
PREPRODUCTION COSTS	1,787	2,622
EXIT COSTS <i>(Note 17)</i>	4,349	963
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	11,168	10,409
Amortization	7,230	5,131
Interest expense, net	813	820
Goodwill write-off <i>(Note 5)</i>	-	9,414
Other income <i>(Note 10)</i>	(312)	(134)
	7,731	15,231
EARNINGS (LOSS) BEFORE INCOME TAXES	3,437	(4,822)
INCOME TAXES <i>(Note 11(b))</i>	763	2,043
NET EARNINGS (LOSS) FOR THE YEAR	\$ 2,674	\$ (6,865)
Earnings (loss) per share -		
Basic and diluted	\$ 0.11	\$ (0.27)
Weighted average common shares outstanding		
Basic	25,411,680	25,620,112
Diluted	25,411,680	25,620,112

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(ALL NUMBERS IN THOUSANDS)

	December 31, 2009	December 31, 2008
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net earnings (loss) for the period	\$ 2,674	\$ (6,865)
Items not involving current cash flows:		
Amortization	7,230	5,131
Future income taxes	862	1,841
Compensation expense (Note 8(d))	250	126
Amortization of financing fees	44	125
Unrealized gain (loss) on interest rate swap (Note 2)	149	(132)
Foreign exchange gain (loss) (Note 10)	9	(63)
Pension expense (Note 13)	195	181
Pension contribution (Note 13)	(131)	-
Purchase of LTIP shares (Note 8(d))	-	(500)
Gain on sale of marketable securities (Note 10)	(318)	-
Gain on sale of property, plant and equipment (Note 10)	(3)	(71)
Write-off of goodwill (Note 5)	-	9,414
	10,961	9,187
Net change in non-cash working capital:		
Receivables	(4,992)	108
Income taxes receivable	778	(1,640)
Prepaid expenses	181	(235)
Accounts payable and accrued liabilities	(1,354)	(660)
	5,574	6,760
INVESTING ACTIVITIES		
Purchase of marketable securities	(1,574)	-
Proceeds on disposal of marketable securities	661	-
Purchase of property, plant and equipment and other assets	(3,145)	(12,878)
Proceeds on disposal of property, plant and equipment	30	230
	(4,028)	(12,648)
FINANCING ACTIVITIES		
Dividends paid	-	(1,556)
Repayment of long-term liabilities	(2,506)	(2,154)
	(2,506)	(3,710)
Effect of exchange rate changes on cash	(84)	88
CHANGE IN CASH AND CASH EQUIVALENTS	(1,044)	(9,510)
Cash and cash equivalents, beginning of year	6,116	15,626
Cash and cash equivalents, end of year	\$ 5,072	\$ 6,116

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

AUTOMODULAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2009 AND 2008
(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 the Automodular Corporation consolidated with those of its wholly-owned subsidiaries, Tec-Mar Distribution Services, Inc. and Automodular Assemblies (Ohio) Inc.

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

Comparative figures

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

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.

New accounting policies

As required by the CICA, on January 1, 2009, the Company adopted the amendments to *Canadian Institute of Chartered Accountants (“CICA”) Handbook* section 3862, “Financial Instruments-Disclosures”, which establishes additional disclosure requirements regarding the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities measured in the balance sheet. These disclosures are outlined in Note 2.

The CICA issued Abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” (the “Abstract”), which states that the Company’s own credit risk and the credit risk of the counterparty should be taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Abstract was effective January 20, 2009 and the Company is in compliance with the Abstract when determining the fair value of its financial assets and financial liabilities.

International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board confirmed that Canadian public companies will 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 developed an implementation plan which includes an extensive analysis of accounting differences between GAAP and IFRS and the assessment of the expected impact of the accounting differences on its consolidated financial statements. The Company continues to assess the IFRS component evaluation for those areas of the financial statements that have identified accounting differences between GAAP and IFRS. Based on this analysis, the Company believes that there will be no material impact on its financial results. As part of its IFRS implementation plan, the Company

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will continue to review the impact on its business activities, its disclosure and internal controls over financial reporting and its financial reporting systems.

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 purchased by the Company this year have been classified as available for sale in accordance with the *CICA Handbook* section 3855, "Financial Instruments" and recorded at fair value, with unrealized gains and losses (net of tax) recorded in comprehensive income (loss).

Property, plant and equipment

Property, 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.

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

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

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

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.

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.

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Until December 31, 2008 the Company also sponsored defined contribution pension plans. Company contributions to this plan were expensed as incurred. Additional information is provided in Note 13.

Goodwill

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

In the prior year, the Company completed its annual goodwill impairment analysis and based on the analysis performed, the Company determined a full write-down was appropriate.

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 (income), net.

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, net of tax, in other comprehensive income (loss) until realized, at which time they will be recorded in the consolidated statements of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheets. Transaction costs related to financial instruments are generally capitalized and then amortized over the expected life of the financial instrument using the effective yield method.

Interest rate swap

The interest rate swap entered into by the Company has been 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 comprehensive income (loss).

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. The compensation expense for LTIP is being recorded over the vesting period. All shares purchased under the LTIP are deducted from the weighted average

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common shares outstanding for the purposes of earnings per share calculations. The calculation is detailed in Note 8(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 the unrealized gains and losses (net of tax) on the interest rate swap, marketable securities and foreign currency translation.

Comprehensive income

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.

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

Income taxes

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

Earnings per share

Basic earnings per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings 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.

2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

AUTOMODULAR CORPORATION
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(ALL NUMBERS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

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 is committed to an interest rate swap agreement on a portion of its Canadian dollar denominated term debt. At December 31, 2009, the fair market value of the contract was a liability of \$160 (2008 - \$375) using a quotation provided by a major Canadian financial institution.

Long-term investments

As at December 31, 2009, the Company held \$1,210 (2008 - nil) 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, 2009 was \$9,263 (2008 - \$11,725) and represents the amounts that would have been paid to counterparties to settle these instruments at the reporting date.

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.

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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	\$ 5,072	\$ 5,072	\$ -	\$ -
Receivables	17,274	-	17,274	-
Marketable securities	1,210	1,210	-	-
	<u>\$23,556</u>	<u>6,282</u>	<u>17,274</u>	<u>-</u>

	Total	Level 1	Level 2	Level 3
Financial liabilities:				
Accounts payable and accrued liability	8,002	-	8,002	-
Long-term debt	9,263	-	9,263	-
	<u>\$ 17,265</u>	<u>\$ -</u>	<u>\$ 17,265</u>	<u>\$ -</u>

b) Credit risk

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

The Company adjusts trade accounts receivable balances, through a provision for doubtful accounts, to expected realizable value as soon as the account is determined not to be fully collectible, with such adjustments charged to earnings. When a trade accounts receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on a customer-by-customer evaluation of the collectability 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, 2009, the allowance for doubtful accounts was \$55 (2008 - \$8).

The aging of accounts receivable balances (net of reserve for doubtful accounts) as at December 31, 2009 was as follows:

	2009	2008
Current:	\$ 14,555	\$ 9,966
Past due 0 – 30 days:	942	1,546
Over 30 days past due:	1,777	962
Total	<u>\$ 17,274</u>	<u>12,474</u>

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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, and maintaining credit facilities to ensure it has sufficient funds available to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities net of deferred financing fees as at December 31, 2009:

	Carrying Amount	Less than 1 year	1 to 2 years	After 2 years
Accounts payable and accrued liabilities	\$ 8,002	\$ 8,002	\$ -	\$ -
Long-term debt	9,263	6,900	1,389	974
	<u>\$ 17,265</u>	<u>\$ 14,902</u>	<u>\$ 1,389</u>	<u>\$ 974</u>

d) Market risk

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

The following table presents a sensitivity analysis to changes in market interest rates and their potential impact on the Company for the year ended December 31, 2009. As the sensitivity is hypothetical, it should be used with caution.

Effect of market interest rate fluctuation for the year ended December 31, 2009:

	+100 bps	-100 bps
(Increase) decrease in interest expense	\$ (32)	\$ 32
Increase (decrease) in interest income	1	(1)
Change to net unrealized gain (loss) on interest rate swap	60	(60)
Increase (decrease) in earnings before income taxes	<u>\$ 29</u>	<u>\$ (29)</u>

The Company manages its market interest rate risk through the use of an interest rate swap for a portion of its outstanding long-term indebtedness. As at December 31, 2009, the Company has entered into an interest rate swap contract with its lender, such that the borrowing rates on \$5,512 or 59.1% (2008 – 55.2%), of its outstanding indebtedness, are effectively fixed. An additional \$1,156 of outstanding long-term debt relates to capital lease financing with an effective rate of 8.9% (2008 – 9.1%).

3. ECONOMIC DEPENDENCE

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

As at December 31, 2009, 98.2% (2008 – 96.2%) of trade receivables were due from GM and Ford (collectively, the OEMs).

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4. PROPERTY, PLANT AND EQUIPMENT

	2009			2008		
	Accumulated		Net	Accumulated		Net
	Cost	Amortization		Cost	Amortization	
Leasehold improvements	\$ 5,525	\$ 4,081	\$ 1,444	\$ 5,263	\$ 3,422	\$ 1,841
Manufacturing equipment	37,009	15,165	21,844	27,380	10,978	16,402
Automotive equipment	856	495	361	585	328	257
Other equipment & furniture	6,702	3,768	2,934	5,903	2,686	3,217
Open capital projects	1,299	-	1,299	9,979	-	9,979
	\$ 51,391	\$ 23,509	\$ 27,882	\$ 49,110	\$ 17,414	\$ 31,696

5. GOODWILL

In the prior year, the Company performed an annual goodwill impairment test. The result of the impairment test indicated that the goodwill should be written off in its entirety.

6. CREDIT FACILITIES

The Company has a revolving credit facility with a limit of \$10,000, which expires October 5, 2010. At December 31, 2009, the Company had not drawn on this facility. Both the revolving credit facility and the term credit facilities described in Note 7 are collateralized by the Company's present and future assets, properties and undertakings. Interest on the revolving credit facility is calculated at the bank's prime rate of interest plus 2.5%. The effective interest rate at December 31, 2009 was 4.8% (2008 - 6.0%).

7. LONG-TERM LIABILITIES

	2009	2008
Canadian dollar term credit facility bearing interest at lenders' floating base rate. The effective interest rate for 2009 was 5.3% (2008 - 8.1%). Payments of \$83 are due monthly, maturing August 15, 2012.	\$ 2,667	\$ 3,667
Canadian dollar term credit facility bearing interest at a floating rate, based on LIBOR. The Company is committed to an interest rate swap agreement relating to this debt which subjects the Company to a fixed rate of 8.29%. Payments of \$175 were due quarterly commencing June 2008 through September 30, 2009, \$438 quarterly payments commenced December 31, 2009 through September 30, 2010, maturing October 5, 2010. Balance is net of \$72 (2008 - \$116) in deferred financing charges.	5,440	6,359
Capital leases with an effective interest rate of 8.9% (2008 - 9.1%), repayable in monthly installments of \$58, with various maturities through 2012, secured by equipment with an original capital cost of \$2,606.	1,156	1,669
	9,263	11,725
Deduct: current portion	6,900	2,554
	\$ 2,363	\$ 9,171

Interest expense on long-term liabilities for the year is \$876 (2008 - \$944).

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

2010	\$ 6,972
2011	1,389
2012	974
	<u>\$ 9,335</u>

8. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares.

(b) Issued - common shares

	Number of Shares	Amount
Issued common shares – December 31, 2008 and 2009	25,949,233	\$ 49,832

There were no common shares issued during 2008 or 2009.

(c) Options

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

No options were granted or outstanding during 2008 or 2009.

(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 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 is shown as a reduction of shareholders' equity.

On August 12, 2008, the board of directors approved an additional contribution of \$500 to this plan. During the third quarter of 2008 a total of 339,049 shares with a cost of \$500 were purchased by the plan on the open market. This amount has been shown as a reduction of shareholders' equity. Awards will vest on or about December 31, 2011 (subject to earlier vesting in certain circumstances in accordance with the plan).

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Compensation expense of \$250 was recognized in 2009 (2008 - \$126) in respect of awards under this plan.

(e) Dividends

No dividends were declared or paid in 2009 (2008 - \$1,556).

(f) Weighted average common shares outstanding

	2009	2008
Issued common shares	25,949,233	25,949,233
Less: weighted average treasury shares held for LTIP	(537,553)	(329,121)
Weighted average common shares outstanding	25,411,680	25,620,112

9. CAPITAL

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

While the Company carries a level of cash on hand, this amount is modest in relation to its overall capital and is generally in an amount determined in reference to its short-term changes in non-cash working capital balances. Cash balances may also be impacted by macro economic factors and industry-specific risks.

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.

The Company's indebtedness is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. One such ratio is the total debt / EBITDA ratio, as defined in the credit agreement with the lender. EBITDA is defined as net earnings for the period plus interest expense (net), income taxes, foreign exchange loss (gain) and amortization. The maximum ratio allowed for a twelve-month rolling period is 2.0. For the rolling twelve-month period ended December 31, 2009, this ratio was calculated at 0.8 (2008 – 1.1). Management also uses this ratio as a key indicator in managing the Company's capital.

The Company is also subject to a fixed charge coverage ratio covenant as defined in the amended credit agreement with the lender. Adjusted EBITDA, as defined by this agreement, is rolling EBITDA as defined above less unfunded capital expenditures, permitted distributions and consolidated income expenses. Fixed charges are defined as scheduled principal repayments and interest expenses. The minimum ratio allowed for a twelve-month rolling period is 1.5. For the rolling twelve-month period ended December 31, 2009, this ratio was calculated at 2.7 (2008 – 2.3).

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

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

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10. OTHER INCOME

	2009	2008
Gain on disposal of marketable securities	\$ 318	\$ -
Gain on disposal of property, plant and equipment	3	71
Gain (loss) on foreign exchange	(9)	63
	<u>\$ 312</u>	<u>\$ 134</u>

11. INCOME TAXES

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

	2009	2008
Property plant and equipment and other assets	\$ 3,987	\$ 3,186
Reserves and other temporary differences	(2,886)	(2,338)
Income tax effect of capital transactions	-	(615)
	<u>\$ 1,101</u>	<u>\$ 233</u>

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 (2008 - \$8,815) 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 31.0% (2008 – 31.5%) were the following:

	2009	2008
Earnings (loss) before income taxes	<u>\$ 3,437</u>	<u>\$ (4,822)</u>
Expected income tax expense at statutory rates	\$ 1,056	\$ (1,502)
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	(64)	3,024
Valuation allowance for US future tax assets	105	863
Changes in tax rates	(329)	(175)
Other	(5)	(167)
	<u>\$ 763</u>	<u>\$ 2,043</u>

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 assess whether valuation allowances should be established against its future income tax assets based on the consideration of all available evidence using a "more likely than not" standard. The factors the Company uses to assess the likelihood of realization are its forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The Company determined that a valuation allowance was required on these amounts as a result of the expected expiry of certain US contracts combined with

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projected future operating losses from US operations. In 2009, the Company increased its valuation allowance by \$105.

(c) Provision

The details of the income tax provision are as follows:

	2009	2008
Current provision	\$ (147)	\$ 201
Future provision	910	1,842
	<u>\$ 763</u>	<u>\$ 2,043</u>

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
Interest paid	\$ 874	\$ 944
Income taxes paid (recovered)	\$ (972)	\$ 1,525

13. PENSION PLANS

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

	2009	2008
Total defined benefit pension expense includes:		
Defined benefit plan:		
Service costs (benefits earned during the year)	\$ 89	\$ 99
Interest costs on accrued benefit obligation	116	100
Expected return on plan assets	(82)	(90)
Amortization of transitional obligations	72	72
Total defined benefit pension expense	<u>\$ 195</u>	<u>\$ 181</u>

Pension fund asset is composed of:

Market value of plan assets at beginning of year	\$ 2,281	\$ 2,566
Employer contributions	131	-
Actual return on plan assets	277	(285)
Market value of plan assets at end of year	<u>\$ 2,689</u>	<u>\$ 2,281</u>

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	2009	2008
Accrued benefit obligations includes:		
Obligation at beginning of year	\$ 1,691	\$ 1,801
Service costs (benefits earned during the year)	89	99
Interest costs on accrued benefit obligation	116	100
Actuarial (gain) loss on accrued benefit obligation	290	(309)
Accrued benefit obligations at the end of year	\$ 2,186	\$ 1,691
 Funded status at end of year:	 \$ 503	 \$ 590
Items not recognized in earnings:		
Unrealized transitional obligation	72	143
Unrecognized actuarial gains (losses)	127	32
Pension fund asset	\$ 702	\$ 765

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

	2009	2008
Discount rate	5.25%	6.50%
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	1 year	2 years

Based on the result of an actuarial valuation completed as of January 1, 2008, funding contributions are expected to be \$144 for the year 2010. Payments will commence upon retirement of the key executive. The next actuarial valuation of the plan for funding purposes will be required no later than January 1, 2011 or in the event of a plan amendment.

The Company committed to providing 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 \$0.3 million in respect of this obligation.

Plan assets

As referred to above, the Company established a retirement compensation arrangement for a senior executive of the Company in order to pre-fund the benefits under the plan. Under the terms of the retirement compensation arrangement, 50% of all contributions to the plan are required to be deposited with the Canada Revenue Agency. At December 31, 2009 45% (2008 - 49%) of the plan assets at fair value were deposited in the tax account and 55% (2008 - 51%) were invested.

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The balance invested consists of the following allocations:

	Target	2009 Actual	2008 Actual
Fixed income	40%	41%	47%
Canadian equity	50%	50%	43%
US equity	5%	2%	1%
International equity	5%	7%	9%

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

14. RELATED PARTY TRANSACTIONS

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

In 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 capital assets required for the Corporation’s new program for Ford in Oakville, Ontario. This credit facility is to be repaid over a six-year term at lenders’ floating base rate plus 4%. In 2009, the effective interest rate was approximately 5.3%. Roynat Inc. earned, and continues to earn customary banking fees.

15. CONTINGENCIES AND COMMITMENTS

(a) Operating leases

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

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	US	CDN	Total
	Denominated	Denominated	
2010	\$ 528	\$ 5,063	\$ 5,591
2011	-	4,890	4,890
2012	-	3,739	3,739
2013	-	2,558	2,558
2014	-	2,377	2,377
Thereafter	-	3,547	3,547
	\$ 528	\$ 22,174	\$ 22,702

(b) Interest Rate Swap Agreement

The Company is committed to an interest rate swap agreement, expiring October, 2010, on its Canadian dollar denominated term debt of \$7,000 (\$5,512 remaining as at December 31, 2009) further details are contained in Note 7. The agreement subjects the Company to a fixed rate of 8.29% and the counterparty to a floating three-month LIBOR rate plus 3.5%. At December 31, 2009, the fair market value of the contract was a liability of \$160 (2008 – \$375) and was included in accounts payable and other liabilities. A charge of \$181 was recognized during the year ended December 31, 2008 in interest expense relating to unrealized losses on the interest rate swap prior to October 1. Effective October 1, 2008, the Company adopted hedge accounting for the interest rate swap and recorded the remaining unrealized loss, net of taxes, in other comprehensive income in accordance with hedge accounting guidelines. The Company currently has no plans to unwind this position prior to maturity.

(c) General

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

16. SEGMENTED INFORMATION

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

	2009		2008	
	Sales	PP&E	Sales	PP&E and Goodwill
Canada	\$73,075	\$27,882	\$78,513	\$31,578
United States	2,186	-	4,422	118
	\$75,261	\$27,882	\$82,935	\$31,696

17. OSHAWA-AREA CONTRACTS AND EXIT COSTS

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 (\$2,044 remains in accounts payable and accrued liabilities at December 31, 2009 for these amounts) including but not limited to estimated facility repair costs, residual equipment leases and lease inducement costs over the balance of the facility lease. Capital assets with a net book value of \$736 were also written off with the charge reflected as amortization.

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During the fourth quarter, Automodular reached a commercial agreement with GM to reimburse certain costs related to the closure and recognized revenue of \$2,836.

During 2008, as a result of the expiry of certain contracts and the elimination of the second shift at the Company's truck plant Automodular incurred severance costs of \$963 (\$546 of which relates to the closure of the Montecorte facility).

The Company re-examines its accruals on a quarterly basis and revises its estimates as circumstances change.

18. SUBSEQUENT EVENT

Subsequent to year-end, Automodular received written notice from GM demanding an approximately 50% reduction in the price of its services to GM's Oshawa Car Assembly Plant or risk losing the business as early as August, 2010. Loss of the business would expose Automodular to an after tax loss of approximately \$7,000 in 2010. Automodular is evaluating its options.