

MANAGEMENT DISCUSSION AND ANALYSIS
OF OPERATING RESULTS AND FINANCIAL POSITION

For the Years Ended December 31, 2009 and 2008

The following Management Discussion and Analysis (“MD&A”) was prepared as of March 25, 2010 and should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2009 and 2008 together with the notes thereto. The MD&A discusses our performance and financial condition, provides an update on financial and non-financial developments during the past year and addresses future prospects.

BASIS OF PRESENTATION

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

COMPANY AND INDUSTRY OVERVIEW

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

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

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

At present, we employ approximately 650 people in four operating facilities servicing two General Motors (General Motors of Canada Company Limited (“GM Canada”) and

General Motors Corporation (“GM US”) collectively “GM”) assembly plants and one Ford Motor Company (“Ford”) assembly plant. We operated approximately 0.8 million square feet of plant space and provided sequencing and sub-assembly services for 0.4 million vehicles in 2009.

The Company currently provides services for the following platforms:

Oakville, ON	Ford Edge Lincoln MKX Ford Flex Lincoln MKT
Oshawa, ON	Chevrolet Camaro
Lordstown, OH	Chevrolet Cobalt

As discussed in our 2008 annual report, during the third quarter of 2008, we witnessed a significant reduction in North American vehicle production volumes due to a drop in consumer demand. This drop in demand was a result of several factors that includes:

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

In response to this significant reduction in consumer demand, our customers responded by temporarily closing certain of their facilities in an effort to balance inventory levels. This operating pattern carried over to 2009 with substantial production downweeks occurring earlier in the year and tapering off each quarter.

In the second quarter of 2009, GM US filed for Chapter 11 protection in the United States. The Chapter 11 filings by GM US and Chrysler enabled both companies to restructure. They have discarded unprofitable brands and vehicles, substantially reduced labour and other operating costs and reduced or eliminated many financial obligations. With respect to GM, the end result is expected to be a much leaner and more focused company – one that will be able to earn profits in the normal course. Ford did not request bailout money from the US and Canadian governments. They did, however, reach agreements with the National Automobile, Aerospace, Transportation and General Workers Union of Canada (“CAW”) and the United Auto Workers’ Union (“UAW”) to obtain wage and benefit concessions similar to those given to GM and Chrysler so as to remain competitive with their North American- based counterparts.

In previous filings, we noted that the impact of these monumental changes to the automotive industry was not clear at that point in time. As previously noted, our success is based on our ability to deliver defect-free modules to the final assembly plant on time, every time, at a cost that makes it more profitable for our customers to use our services

rather than doing the work themselves or awarding the business to one of our competitors. The differential between our fully loaded labour rate and that of our customers is smaller than it was. The landscape for the outsourcing of complex sub-assembly services has changed substantially and will likely reduce future opportunities and may impact existing contracts. In the short term, there is considerable risk of disruption to existing programs if contracts are transitioned mid-stream. That being said, there is increased pressure put on suppliers to meet substantial cost reduction targets imposed by the OEM. We are currently quoting an expansion to our existing Oshawa business; this quote incorporates our existing Chevrolet Camaro work as well as two new vehicles – the Buick Regal and Cadillac XTS scheduled for production in the next two to three years. Aside from that request, the volume of new bids that we are being asked to consider is appreciably lower than in previous years.

2009 OVERVIEW

Sales decreased from \$82.9 million in 2008 to \$75.3 million in 2009 and resulted in net earnings for the year of \$2.7 million or \$0.11 per share compared to a net loss of \$(6.9) million or \$(0.27) per share in 2008. 2008 figures included the non-cash write-off of \$9.4 million of goodwill.

Significant events in 2009 included the following:

- As a result of the continued weakness in automotive sales, the Company's operations experienced considerable downtime during 2009. Most of the downtime was concentrated in the first and second quarters of the year. Production volumes did improve as the year progressed, most notably in the fourth quarter, where our Oakville operations produced substantially more modules at a higher daily rate than we have experienced in the contract to date.
- In our Oshawa operations, the Chevrolet Camaro entered commercial production in March. The vehicle was well received by the public and in high demand resulting in several overtime shifts being worked during the third and fourth quarters to further bolster production.
- As expected, our Oshawa-area truck operations were shut down during the second quarter when GM Canada's Oshawa truck plant ceased operations. This resulted in a layoff of approximately 110 Automodular employees and Automodular signed a final severance agreement with the CAW for its hourly associates. Total severance costs for hourly and salaried employees associated with the closure was \$1.8 million.
- As previously discussed in the overview, GM US filed for creditor protection under Chapter 11 in June. GM Canada, its Canadian subsidiary, did not file for any form of creditor protection, so there was no impact on Canadian-based receivables. Automodular had approximately US\$0.2 million in outstanding receivables relating to its Ohio-based operations at the time of the filing. All pre-petition amounts were paid.
- In the third quarter, Automodular reached agreement with the CAW on a two-year renewal contract for its Oakville-area workers.
- During the third quarter, Oakville-area operations reached commercial production levels for the new Lincoln MKT.

- During the fourth quarter, Automodular reached a settlement of outstanding commercial issues with GM relating to its Oshawa and Ohio-area operations. The settlement resulted in the payment by GM of certain amounts relating to the closure of our Oshawa-area truck operations, an increase to pricing as a result of changes in scope for our Oshawa-area car operations and an extension of existing Ohio contracts to September 30, 2010. The Ohio contracts were previously set to expire December 31, 2009.

RISK FACTORS

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

Industry risk

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

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

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

For further discussion relating to changes in the automotive industry in 2009 please refer to the "*Company and Industry Overview*."

Dependence upon key customers

Automodular has long-term contracts with GM and Ford. All of the Company's sales are dependent on the OEMs and the production volumes of the OEMs for which it provides services. Accordingly, cancellation of a significant order or the insolvency of any such customers, or reduced sales of vehicles for which we have contracts, could materially and adversely affect the Company's business. In Oshawa, Automodular received written

notice in 2010 from General Motors demanding an approximately 50% reduction in the price of its services to General Motors 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 million in the current year. Automodular is evaluating its options. In addition, an extended work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers could have a marked impact on the Company's revenues and/or profits. All of the Company's sales are in North America, a sector which has experienced over-capacity, significant competition and "legacy cost" (pension and healthcare liabilities especially in the United States) issues. These pressures have contributed to some production losses and pricing pressures for suppliers in the automotive industry.

Customer contracts

Given the current trends in the automotive industry, the Company is under increasing pressure to absorb costs and provide additional price reductions over and above those already built into contracts. If the Company is unable to achieve savings through cost reduction programs to offset these items, future earnings will be adversely impacted.

Contract volumes for customer programs not yet in production are based on estimates of future production levels. However, actual production volumes may vary significantly from these estimates because of a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not contain a minimum volume or value. For programs currently under production, the Company is generally unable to request price changes when there is a marked difference in volumes from production estimates used during the quotation stage. If estimated production volumes are not achieved, the capital and preproduction costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Contracts can generally be terminated by a customer at any time and, if terminated, could result in the Company incurring exit costs which may not be recoverable from our customer. All of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once Automodular receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

Program delays

From time to time, the Company may expand its production capacity by leasing new premises and/or contracting for the construction of new facilities to accommodate the award of new business from the Company's customers. There can be no assurance that the Company will be able to lease new facilities on reasonable terms, if at all. Furthermore, the construction of new facilities also involves a number of areas of operational and financial risk such as construction delays and delays associated with the installation, testing and start-up of new production equipment or manufacturing processes. Since many new facilities are leased and/or constructed to accommodate the

launch of new customer production programs, the Company risks delays in program launches if it is unable to lease and/or construct new facilities as required.

Product warranty, recall and liability risk

Automobile manufacturers are asking more and more that each of their suppliers bears the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition. Historically, Automodular has not been exposed to any material costs in this regard.

Labour relations matters

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

Dependence upon key personnel

The success of the Company is dependent on the services of its senior management team which includes the Chief Executive Officer, the Vice-Presidents and the Operations Managers. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. Although the Company engages in succession planning, the loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company maintains key man life insurance on its Chief Executive Officer and two of its Vice-Presidents in the amount of \$5.0 million in the case of the CEO and \$2.0 million in the case of each of the Vice-Presidents.

Limited financial resources/uncertainty of future financing/banking

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

Potential litigation

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

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2009 and 2008 are as follows:

(all numbers in thousands)	<u>2009</u>	<u>% of sales</u>	<u>2008</u>	<u>% of sales</u>
Sales	\$ 75,261	100.0%	\$ 82,935	100.0%
Cost of goods sold and other expenses	57,957	77.0%	68,941	83.1%
Preproduction costs	1,787	2.4%	2,622	3.2%
Exit costs	4,349	5.8%	963	1.2%
Earnings before the following:	11,168	14.8%	10,409	12.6%
Amortization	7,230	9.6%	5,131	6.2%
Interest expense (income), net	813	1.1%	820	1.0%
Goodwill write-off	-	0.0%	9,414	11.4%
Other income	(312)	(0.4)%	(134)	(0.2)%
	7,731	10.3%	15,231	18.4%
Earnings (loss) before income taxes	3,437	4.6%	(4,822)	(5.8)%
Income taxes	763	1.0%	2,043	2.5%
Net earnings (loss) for the year	\$ 2,674	3.6%	\$ (6,865)	(8.3)%

SALES

Automodular's sales decreased from \$82.9 million in 2008 to \$75.3 million in 2009 for the reasons noted below:

Canadian operations: Sales decreased from \$78.5 million to \$73.1 million in 2009. Sales in the Company's Oakville-area operations were down approximately 9.1% year over year due primarily to the impact of the more than ten production downweeks experienced during the first and second quarters of 2009 partially offset by strong production levels in the fourth quarter. Our Oshawa-area operations were essentially flat year over year; however the makeup of those sales changed substantially. In 2008, sales related to work performed for GM Oshawa's truck and car operations. In 2009, sales related to work performed for GM Oshawa's truck operations, until its closure in May, and from the Chevrolet Camaro program that entered commercial production in the first quarter of 2009.

US operations: US-based revenues of US\$1.9 million were approximately US\$2.2 million lower in 2009 than in 2008. Ohio-based operations were down considerably year over year as a result of a substantial number of downweeks as well as the reduction from a two-shift to a one-shift operation for a portion of the year.

COST OF GOODS SOLD AND OTHER EXPENSES

Cost of goods sold and other expenses decreased by \$10.9 million from \$68.9 million in 2008 to \$58.0 million in 2009. On a gross basis, costs decreased in part as a result of lower levels of sales. Cost of goods sold and other expenses as a percentage of sales is down year over year due to amounts included in revenue relating to the termination of our Oshawa-area truck operations and the launch of the Chevrolet Camaro program which generated a higher margin than the Oshawa-area car programs that expired in 2008.

PREPRODUCTION COSTS

Preproduction costs for 2009 total \$1.8 million compared to \$2.6 million in 2008. Expenditures in the current year relate to the pre-launch costs for the Lincoln MKT which launched in the third quarter and the 2011 Ford Edge model-year change. In 2008, costs related primarily to pre-launch costs for the Ford Flex. Pre-launch costs related to the Chevrolet Camaro were funded by GM so are not included in either year's figures.

EXIT COSTS

Exit costs for 2009 total \$4.3 million compared to \$1.0 million in 2008. Costs in both periods are a result of shift reductions, contract terminations or expiration and the closure of Oshawa-area facilities. 2008 amounts relate to the expiration of certain car contracts and 2009 relates to the closure of our Oshawa-area truck operations. The 2008 amount relates entirely to severance paid or to be paid to hourly and salaried employees as a result of contract expiries and the elimination of the second shift of truck operations. In 2009, costs also include severance paid or to be paid to hourly and salaried employees as well as exit costs for the Montecorte facility including but not limited to facility repair costs, residual equipment leases, and expected lease inducement costs over the balance of the facility lease and actual facility costs incurred post-closing. The Montecorte lease expires in November, 2011 and the facility is being actively marketed for sub-lease. Annual lease payments on the facility are approximately \$1.2 million. As a result of a commercial settlement with GM, a portion of the exit costs incurred were reimbursed. Amounts received were included in revenues.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AMORTIZATION AND OTHER NON-CASH ITEMS ("EBITDA")

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

EBITDA increased from \$10.4 million in 2008 to \$11.2 million in 2009 for the reasons noted below:

Canadian operations: Overall EBITDA in our Canadian operations increased 17.2% year over year. EBITDA from our Oakville operations was 18.5% lower primarily as a result of the significant number of downweeks experienced in the first half of 2009. Automodular is paid on a fully variable basis for its Oakville contracts and is, therefore, fully exposed to fixed costs when downweeks occur. More than offsetting this, EBITDA from Oshawa operations increased from 2008 to 2009 primarily as a result of the strong launch of the new Chevrolet Camaro program.

US operations: EBITDA from our US operations dropped substantially from 2008 levels and was actually negative for 2009 primarily as a result of the considerable number of production downweeks as previously discussed.

Reconciliation of EBITDA to earnings before income taxes:

(all numbers in thousands)	<u>2009</u>	<u>2008</u>
EBITDA	\$11,168	\$10,409
Amortization	7,230	5,131
Interest expense (income), net	813	820
Goodwill write-off	-	9,414
Other income	(312)	(134)
	<u>7,731</u>	<u>15,231</u>
Earnings (loss) before income taxes	<u>\$3,437</u>	<u>\$(4,822)</u>

EARNINGS (LOSS) BEFORE INCOME TAXES

Earnings before income taxes of \$3.4 million in 2009 compares to a loss before income taxes in 2008 of \$(4.8) million. The difference is primarily due to the \$9.4 million write-off of goodwill in 2008. Normalizing for the goodwill write-off, earnings before income taxes are lower year over year as the increase in EBITDA could not offset increased amortization charges as a result of new assets brought into production in our Oshawa and Oakville-area operations.

AMORTIZATION

Amortization increased year over year from \$5.1 million in 2008 to \$7.2 million in 2009 as a result of an increase in production-related assets in use. The current year figure includes amortization of Automodular's capital relating to the Chevrolet Camaro and Lincoln MKT vehicles both of which entered commercial production during 2009.

INTEREST EXPENSE, NET

Interest expense, net in 2009 of \$0.8 million is essentially flat to 2008 levels. Although interest rates have lowered, the majority of our term debt is at a fixed rate of 8.29%. With the decline in rates, there has been a marked decrease in interest income year over year offset by reduced costs on remaining debt which is subject to a variable rate.

OTHER INCOME

Other income in the current year of \$0.3 million compares to \$0.1 million in 2008. In 2009, Automodular recorded a gain of approximately \$0.3 million on the disposition of marketable securities. Other income also includes foreign exchange amounts expensed through the income statement relating to the conversion of monetary assets and liabilities in our Canadian operations at the balance sheet date. In 2008, the result was a net foreign exchange gain of \$0.1 million compared to \$0.0 million in 2009. Gains on disposal of property, plant and equipment recorded in other income was \$0.0 million in 2009 compared to \$0.1 million in 2008.

INCOME TAXES

The effective tax rate for the current year is approximately 22.2%. The rate is lower than the statutory rate primarily as a result of changes in future tax rates during the period over which timing differences are expected to reverse. In addition, the gain on the sale of marketable securities referred to above does not lead to a tax liability due to the availability of capital losses. Partially offsetting this reduction in the effective tax rate is the fact that no recovery has been reflected in the current year relating to losses incurred in our US operations as realization of the benefit is uncertain. In 2008, an examination of the tax provision using an effective tax rate is not meaningful because the write-off of goodwill was not tax deductible. In addition, the 2009 provision included a valuation allowance of \$0.1 million (2008 - \$0.8 million) relating to US future income tax assets where the realization is uncertain.

HISTORICAL ANNUAL DATA

(All numbers in thousands except per share amounts)

		2009	2008	2007
Sales	\$	75,261	82,935	99,613
Net earnings (loss)		2,674	(6,865)	6,871
Earnings (loss) per share (basic and diluted)		0.11	(0.27)	0.30
Total assets		55,955	55,814	67,047
Total long-term liabilities		2,363	9,171	11,610
Cash dividends per share	\$	-	0.06	-

2009 Versus 2008 Results

The income statement variances between 2008 and 2009 have been previously discussed. Total assets are essentially flat year over year and the decrease in long-term liabilities from the prior year relates to the fact that our Scotiabank term facility falls due in the fourth quarter of 2010 and accordingly \$5.5 million of long-term liabilities was classified as current liabilities as at year-end. During the third and fourth quarters of 2008, Automodular declared and paid a dividend of \$0.03 per common share on the outstanding shares of the Company. No dividends were declared or paid in 2009.

2008 versus 2007 results

2008 net earnings were significantly lower than 2007 following the \$9.4 million goodwill write-off, recorded in the fourth quarter of 2008 coupled with the impact of a considerable number of production downweeks in the second half of 2008 as a result of lower automotive sales and weakening economic conditions in general. Total assets decreased year over year primarily because of the write-off of goodwill. The decrease in long-term liabilities represents debt repayments on our two term credit facilities and capital leases in the current year.

HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(All numbers in thousands except per share amounts)

	2009				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	13,242	24,103	15,112	22,804	20,810	25,013	20,691	16,421
Net earnings	(972)	2,576	(1,069)	2,139	(177)	1,639	2,021	(10,348)
Per share (basic and diluted)	(0.04)	0.10	(0.04)	0.08	(0.01)	0.06	0.08	\$ (0.40)

In our industry, the first and second quarters of the year typically generate higher earnings than the third and fourth quarters because there are a greater number of non-production days (statutory holidays and in the third quarter generally a two-week closure for summer shutdown) in the latter half of the year. However, our 2009 results were impacted by production downweeks experienced in the first and second quarters of the year and by the resolution of certain commercial issues with GM which were reflected in the third quarter. In 2008, third quarter results were stronger in light of certain contract extensions in our Oshawa operations that contained a higher fixed portion of revenues. Net earnings in the fourth quarter of 2008 reflect the impact of the \$9.4 million write-off of goodwill.

FOURTH QUARTER (2009)

Operating results for the fourth quarter were significantly stronger in 2009 when compared to 2008. Sales were approximately \$6.4 million higher year over year as additional production uptime offset the impact of the downsizing of our Oshawa operations in 2009; 2008 was subject to lower production volumes. EBITDA in the fourth quarter of 2009 was \$4.1 million compared to \$1.5 million in the fourth quarter of 2008. In the fourth quarter of 2008, Automodular's operations experienced substantial production downtime as both Ford and GM attempted to rebalance inventory levels and reduce costs in the face of the substantial reduction in consumer demand for automobiles. There was no such production downtime in the fourth quarter of 2009. Net earnings in the fourth quarter, 2008 include the \$9.4 million write-off of goodwill. Even excluding the goodwill write-off, earnings were still substantially higher in the fourth quarter of the current year as a result of there being no unplanned downweeks in the fourth quarter of 2009 as noted above

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

(all numbers in thousands)

	2009	2008
Net earnings (loss)	\$ 2,674	(6,865)
Non-cash items	8,287	16,684
Non-cash working capital and purchase of LTIP shares	(5,387)	(3,059)
Cash from operations	<u>\$ 5,574</u>	<u>6,760</u>

On a net basis, the decrease in cash from operations is mainly a consequence of more cash being tied up in working capital because of the reduction in downtime experienced in the fourth quarter, 2009 compared to the fourth quarter, 2008. Changes in non-cash working capital were mainly due to the increase in the accounts receivables balance. Accounts receivables balance includes non-production amounts due from Ford and GM totaling \$4.0 million (2008 - \$2.5 million). The process for non-production invoicing often extends timing for payments.

INVESTING ACTIVITIES

(all numbers in thousands)

	2009	2008
Purchase of PP&E (net)	\$ (3,115)	(12,648)
Purchase of marketable securities (net)	(913)	-
	<u>\$ (4,028)</u>	<u>(12,648)</u>

Net purchases of property, plant and equipment (purchases less proceeds on dispositions) decreased by \$9.5 million. During 2008 there were more programs in the pre-production phase. 2009 expenditures relate primarily to residual expenditures on the Lincoln MKT program in Oakville and the Chevrolet Camaro program in Oshawa both of which launched in 2009 and expenditures relating to the Ford Edge 2011 model year change which is scheduled to occur in 2010. The majority of capital purchases on both the Lincoln MKT and the Chevrolet Camaro programs were incurred in 2008.

FINANCING ACTIVITIES
(all numbers in thousands)

	2009	2008
Dividends paid	\$ -	(1,556)
Repayment of long-term liabilities	(2,506)	(2,154)
Cash used in financing activities	<u>\$ (2,506)</u>	<u>(3,710)</u>

Repayments of long-term liabilities of \$2.5 million in the current year included repayments on Automodular's two term credit facilities and on its capital leases. Repayments of long-term liabilities increased during 2009 as the repayment schedule of one of the term facilities called for an increase in principal repayments in the fourth quarter, 2009. During 2008, Automodular paid dividends of \$0.03 per share on its common shares in each of the third and fourth quarters. No dividends were paid in 2009.

UNUSED AND AVAILABLE FINANCING RESOURCES

Automodular's cash and cash equivalents on hand at year-end totaled \$5.1 million compared to \$6.1 million at the end of 2008. The Company has an undrawn \$10.0 million operating line. Automodular is entering 2010 with a strong balance sheet and expects that its cash on hand, availability of credit and expected cash flows from operations are sufficient to fund the needs of the Company during the 2010 fiscal year.

OFF BALANCE SHEET FINANCING

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2009 are set out in the chart below under "*Contractual Obligations Due by Year*" and total \$32.0 million.

FINANCIAL INSTRUMENTS

The Company is committed to an interest rate swap agreement on its \$7.0 million Canadian credit facility (\$5.5 million outstanding at December 31, 2009) which expires October, 2010. The agreement subjects the Company to a fixed rate of 8.29% and the counterparty to a floating three-month LIBOR rate plus 3.5%. Note 15(b) to the financial statements describes the accounting for this instrument.

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

CONTRACTUAL OBLIGATIONS DUE BY YEAR
(All numbers in thousands)

	2010	2011	2012	2013	2014	Thereafter
Long-term debt	\$ 6,440	1,000	667	-	-	-
Capital leases	460	389	307	-	-	-
Operating leases	5,591	4,890	3,739	2,558	2,377	3,547
Total contractual obligations	<u>\$ 12,491</u>	<u>6,279</u>	<u>4,713</u>	<u>2,558</u>	<u>2,377</u>	<u>3,547</u>

SHAREHOLDERS' EQUITY

Shareholders' equity increased from \$34.5 million at December 31, 2008 to \$37.6 million at December 31, 2009. The increase is primarily due to the earnings in the current year.

In 2008, the Company contributed \$0.5 million to the key executive long-term incentive plan ("LTIP"). This amount is included as a reduction in shareholders' equity.

In 2008, the Company declared and paid dividends totaling \$1.6 million. No dividends were declared or paid in 2009.

Also included in shareholders' equity is a cumulative foreign currency translation loss of \$5.6 million. This loss relates to the increased strength of the Canadian dollar against the US dollar since the time that the Company purchased its US operations. The loss was partially offset by the realized gain on the US dollar portion of the purchase financing which was fully paid off in 2007. This amount will be recognized as a charge against earnings at such time as Automodular discontinues its US operations. This is presently expected to be in the third quarter 2010.

OUTSTANDING SHARE DATA

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

	December 31, 2009		December 31, 2008	
	# Outstanding	Amount	# Outstanding	Amount
Common shares	25,949,233	\$ 49,832	25,949,233	\$ 49,832

From December 31, 2009 to the date of this filing there has been no change in the number of shares outstanding.

RELATED PARTY TRANSACTIONS

In October, 2007, the Company secured new financing with The Bank of Nova Scotia ("BNS") which also owns 100% of Scotia Merchant Capital Corporation ("SMCC"). The existing BNS credit facilities were amended to include a three-year non-revolving \$7.0 million term loan and a \$10.0 million revolving term facility. At that time, SMCC directly owned 39.9% of the issued and outstanding common shares of the Company. Andrew Brenton and Garth Davis, directors of the Company, were formerly Managing Partner and Partner, respectively, of SMCC. Each of Mr. Brenton and Mr. Davis declared his interest in the transaction and refrained from voting on the matter. The financing was used for general corporate purposes, including the expansion related to the second Ford Program and Oshawa-area contract awards. BNS earned, and continue to earn, 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 being 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.

2010 OUTLOOK

The forward-looking statements below are not historical facts but reflect the Company's current expectations regarding future results or events and are based on information currently available to management. Certain material factors and assumptions were applied in providing these forward-looking statements. Automodular has from time to time provided a financial outlook in its filings but effective the third quarter of 2008, Automodular determined it was not appropriate to provide outlook guidance. Please review our forward-looking statement disclaimer at the end of this MD&A.

In the first half of 2009, Automodular was impacted by lower production volumes and by the closure of its Oshawa-area truck operations. There has been some recovery in economic conditions throughout 2009 and consequently, an improvement in annualized automotive sales. In the second half of 2009, particularly in the fourth quarter, we have seen the elimination of planned production downweeks and have been experiencing overtime production in our operations.

The Company is focused on conserving cash and managing and reducing its costs. Automodular enters the 2010 year with a strong balance sheet, cash on hand of \$5.1 million and an undrawn \$10.0 million line of credit.

In Oshawa, Automodular has received written notice from General Motors demanding an approximately 50% reduction in the price of its services to General Motors 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 million in the current year. Automodular is evaluating its options.

In Oakville, we have been experiencing strong production volumes through the fourth quarter and into 2010. Our launch team's resources are focused on the 2011 Ford Edge model year change which calls for some substantial modifications to the vehicle which are expected to result in increased demand.

In Ohio, Automodular expects to close its last remaining US operation in the third quarter of 2010. The closure is not expected to have a material impact on the Company. In 2009, Ohio revenues made up less than 2.9% of consolidated revenues and the operations operated at a small loss. In the absence of continuing US operations, Automodular would recognize through earnings the cumulative translation adjustment loss of approximately \$5.6 million. The recognition of this amount essentially reallocates the amount between other comprehensive income (loss) and deficit within shareholders' equity and would have no impact on the consolidated balance sheet or cash position of the Company.

As previously noted, the volume of new bids that we are being asked to consider is appreciably lower than in previous years. In addition, the availability of credit for automotive initiatives is quite limited. Automodular continues to look for opportunities that would diversify its operations while still utilizing the skill set of its existing management team.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are more fully described in Note 1 “*Basis of Presentation*” to the consolidated financial statements. Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, such estimates and assumptions are subject to an inherent degree of uncertainty. Accordingly, actual results may differ significantly from our estimates.

We consider an accounting estimate to be critical if it requires us to make assumptions about matters that were uncertain at the time the estimate was made and changes in the estimate would have a significant impact on our consolidated financial position or results of operations.

Amortization of capital assets

Automodular considers the amortization policy relating to capital assets to be a “*critical accounting policy*” as several factors are to be considered when determining the amortization rate. Automodular considers the expected life of the assets, expected residual value, and contract length when setting the amortization rate of its assets.

Exit costs

Accruals have been recorded in conjunction with the expiry or termination of production contracts. These accruals include estimates primarily related to severance and facility related costs and actual costs may vary from these estimates. These costs are reviewed on a quarterly basis and changes recognized when identified.

Future income tax assets and liabilities

Future income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided. The Company considers this allowance “*a critical accounting estimate*” as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period and may have a material impact on the Company’s consolidated

financial statements. Factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant changes in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

As at December 31, 2009, the cumulative valuation allowance booked against future income taxes in relation to US non capital losses is \$1.0 million. The valuation allowance is reflected in the net future income tax liability from continuing operations balance of \$1.1 million on the consolidated balance sheets of the Company.

Impairment of long-lived assets

Management assess for impairment of long-lived assets when events and changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company believes that the estimate of impairment for long-lived assets is a "*critical accounting estimate*" because management is required to make significant forward-looking assumptions when events or circumstances indicating impairment arise. In addition, different estimates that could have been used or changes in estimates from period to period may have a material impact on the Company's consolidated financial statements. Recoverability is assessed by comparing the carrying amount first to the estimated undiscounted future cash flows. An impairment loss is measured when the carrying amount of the long-lived asset exceeds its fair value which can be determined using the discounted future cash flows the long-lived assets are expected to generate. Cash flows are estimated using internal budgets based on recent sales data and independent automotive production volume estimates as well as assumptions relating to discount rates. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of long-lived assets. Automodular has not realized any impairment of long-lived assets in 2009 or 2008.

Defined benefit pension plan

As disclosed in Note 13 of the audited consolidated financial statements, Automodular has a defined benefit pension plan for a senior executive of the Company. The Company believes that estimates relating to the discount rates, rate of compensation increase and long-term rate of return on plan estimates constitute a "*critical accounting estimate*" because of the significant forward-looking assumptions required. Plan assets and obligations are measured using various actuarial assumptions such as discount rates, expected long-term rate of return on plan assets, rate of compensation increase, and retirement age. Automodular utilizes the services of third-party specialists to provide inputs as they relate to these variables. The measurement of the defined benefit pension expense is based on various actuarial assumptions including discount rates, expected return on plan assets and rate of compensation increase. We review our actuarial assumption on an annual basis and modify these assumptions when appropriate. The last actuarial valuation was completed as of January 1, 2008.

Revenue recognition

We enter into agreements with our customers to provide services at the beginning of a vehicle's life. Although such agreements do not provide for minimum quantities, once we enter into such agreements, we are generally required to fulfill our customers' purchasing requirements for the length of the commercial agreement. In general, these agreements may be terminated by our customer for convenience at any time. Historically, early termination of these agreements has been minimal. In certain instances, we may be committed under existing agreements to supply services to our customers at selling prices which are not sufficient to cover the direct cost of production. In such situations, we recognize the losses as they are incurred.

We recognize revenues based on the pricing terms included in our commercial agreements as the components are shipped to our customers. We are often asked to provide our customers with annual cost reductions as part of certain agreements. We accrue for such amounts as a reduction in revenue as the components are shipped to our customers. In addition, we have ongoing adjustments to our pricing arrangements with our customers based on the adjustments to content (scope creep) and other commercial factors. Such pricing accruals are adjusted as they are settled with our customers.

CHANGES IN ACCOUNTING POLICIES

EIC-173 "Credit risk and the fair value of financial assets and financial liabilities"

In January 2009, the Emerging Issues Committee ("the Committee") issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC"). The Committee concluded that a company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities as under Canadian Institute of Chartered Accountants ("*CICA*") *Handbook* section 3855 "Financial Instruments – Recognition and Measurement". The application of the EIC is for interim and annual financial statements for periods ending on or after the date of issuance of the EIC. The adoption of this new accounting standard did not impact the company's net earnings or financial position.

New accounting policy - marketable securities

Marketable securities purchased by the Company during the 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 recorded in comprehensive income (loss).

International financial reporting standards ("IFRS")

The Accounting Standards Board ("AcSB") has set January 1, 2011, as the date that IFRS will replace current GAAP for publicly accountable entities. The changeover to IFRS will be required for our interim and annual financial statements beginning January 1, 2011. IFRS uses a conceptual framework similar to GAAP, but there are some significant differences on recognition, measurement and disclosures. Also, IFRS is expected to differ

from current IFRS on the date of adoption due to new standards and pronouncements that are expected to be issued before the changeover date.

The following information is provided to comply with *Canadian Securities Administrators* staff notice 52-320, “Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards” and to allow readers to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our consolidated financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

IFRS changeover plan

We have developed a detailed plan for our changeover to IFRS that is comprised of three related phases:

- Review and Assessment;
- Design; and
- Implementation.

PHASE 1: REVIEW AND ASSESSMENT

The objective of this phase is to identify the required changes to our accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases.

Phase 1 involves:

- a detailed review of all relevant IFRS standards to identify differences with our current accounting policies and practices;
- the separate consideration of IFRS 1 (“First Time Adoption of IFRS”) requirements that allow first-time adopters to select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (December 31, 2011 for Automodular), and apply those policies to all periods presented in its first IFRS financial statements. IFRS 1 also provides certain optional exemptions to the full retrospective application;
- the prioritization of differences that could have a more than inconsequential impact on our consolidated financial statements, business processes or IT systems; and
- the identification of internal stakeholders and other areas that may be affected by the changeover.

Our approach in selecting accounting policies under IFRS is to base our choices on policies that will improve the overall usefulness of our consolidated financial statements.

We have begun to prioritize the assessment of standards that have a high likelihood of impacting the consolidated financial statements or where significant choices are available.

PHASE 2: DESIGN

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of our changeover plan. These solutions will result in certain necessary changes to our internal business processes and financial systems to comply with IFRS accounting and disclosure requirements.

Phase 2 activities include:

- the evaluation of accounting policy alternatives;
- the investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls; and
- the development and documentation of internal control over financial reporting and disclosure controls and procedures, including investor relations and external communication plans, where applicable.

PHASE 3: IMPLEMENTATION

In the third and final phase of our changeover plan, we will implement the changes to affected accounting policies and practices, business processes, IT systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover.

Progress towards completion of our IFRS transition

Changeover plan

We have commenced Phase 1 of our changeover plan and have identified certain differences between Canadian GAAP and IFRS that impact our consolidated financial statements. Our analysis has identified a number of accounting differences and policy alternatives under IFRS as compared to Canadian GAAP. The major differences identified thus far impact property, plant and equipment in addition to the overall increased level of disclosure. We have determined, however, that our accounting policies are largely aligned with IFRS requirements in many key areas.

Phase 2 work will commence upon the completion of Phase 1, at which time we will assess the impact and design solutions to address the differences, focusing initially on those differences that may require changes to our financial systems or that are more complex or time-consuming to resolve. Management is committed to procuring the appropriate resources to ensure the changeover is completed on a timely basis. We have also ensured training needs will be continually addressed throughout the transition period.

Management will consider the impact of the transition on our risk-management practices, capital requirements, compensation arrangements and compliance with our debt covenants, where applicable.

At this time, we cannot quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures; however, such impact may be material. Additional information will be provided as we move towards the changeover date.

The following are some of our key preliminary conclusions with respect to the recognition and measurement of certain balance sheet items, based on current IFRS. Other key analyses are progressing, but preliminary conclusions have not yet been reached and as such were not reported at this time. The impact of some of the analyses reported below could be significant, and will be reported once conclusions are reached.

Standard	Preliminary conclusion	Potential impact
Property, plant and equipment	Our accounting policy for property, plant and equipment is mainly aligned with IFRS, except that major components should be amortized separately.	Not expected to have a significant impact.
Financial instruments	Our accounting policy for financial instruments does not differ significantly from the IFRS accounting treatment.	Not expected to have a significant impact.
Revenue Recognition	Our accounting policy for revenue recognition does not differ significantly from IFRS.	Not expected to have a significant impact.
Leases	Our accounting policies regarding the classification of a lease and determining whether an arrangement contains a lease do not differ significantly from the IFRS lease accounting requirements.	Not expected to have a significant impact.

Provisions	No changes have been identified from the Company's current accounting policy as to the timing and amount of recognizing liabilities.	Not expected to have a significant impact.
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As mentioned above, IFRS 1 provides certain optional exemptions to the full retrospective application required by IFRS. The following are our preliminary conclusions with respect to key IFRS 1 optional exemptions:

Exemption	Preliminary conclusion
Business combinations	We will apply the new standard only to business combinations that have occurred after the transition date, without restatement of prior business combinations.
Long-lived assets	We will use the historical cost method for our property, plant and equipment.
Pension	We will recognize the cumulative net unrecognized actuarial gains and losses on our opening balance sheet by adjusting retained earnings at the transition date.
Cumulative translation adjustment ("CTA")	We will eliminate our CTA balance by adjusting retained earnings at the transition date.

Based on the conversion analysis completed to date, management does not expect the conversion to have a significant impact on information systems and internal controls over financial reporting for the Company and its subsidiaries.

Our IFRS project is progressing according to plan. We will continue to monitor standards to be issued by the IASB, as the IASB work plan anticipates the implementation of several new standards in both 2010 and 2011. We will continue to provide training to key employees and board members and to monitor the impact of the transition on our business practices, systems and internal controls over financial reporting. We will provide updates as further progress is achieved and conclusions are reached.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management evaluated the design and effectiveness of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the year ended December 31, 2009. The evaluation was performed by the CEO and CFO of Automodular with the assistance of other management and staff to the extent necessary. Based on this evaluation, the CEO and CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively. There were no material changes in the Company's internal controls over financial reporting in the year ended December 31, 2009 that have had, or are reasonably likely to have, a material effect on Automodular's internal controls over financial reporting.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements may include, but are not limited to, financial and other projections, as well as statements regarding our future plans, objectives or performance, anticipated business development, anticipated industry developments, our views on the long-term outlook of the automotive industry, our views on the future of outsourcing versus insourcing, or our underlying assumptions. Words such as "*may*", "*would*", "*could*", "*will*", "*likely*", "*estimate*", "*anticipate*", "*believe*", "*expect*", "*intend*" or other similar expressions are intended to identify forward-looking statements. Such forward-looking statements, or forward looking information, reflect management's beliefs, estimates and opinions regarding Automodular's future growth, results of operations, performance and business prospects and opportunities and are not guarantees of future results.

By its nature, forward looking information involves certain risks, assumptions, uncertainties and other factors which may cause actual future results to differ materially from those expressed or implied in any forward-looking statements and include but are not limited to:

- the cyclical nature of the automotive industry and its dependence on consumer spending;
- our ability to identify, close and integrate acquisitions;
- our ability to finance new business requirements;
- economic conditions;
- fluctuations in interest and exchange rates;
- the continuation and extent of outsourcing by automotive manufacturers;

- our ability to meet customer needs relating to cost and quality;
- labour issues or disruptions;
- customer pricing pressures;
- actual levels of program production volumes differing from original expectations;
- our dependence on certain platforms;
- our relationship with and dependence on GM and Ford;
- new program launch risks and other changes in the business environment in which we operate;
- limited financial resources; and
- the effect of new accounting standards on our financial results.

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

ADDITIONAL INFORMATION

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

March 25, 2010