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

The following MD&A of our consolidated operating results and financial position is for the years ended December 31, 2007 and 2006 and should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto. The MD&A discusses our performance and financial condition, provides an update on financial and non-financial developments during the past year and addresses future prospects.

BASIS OF PRESENTATION

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

COMPANY AND INDUSTRY OVERVIEW

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

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

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

The demand for our services has greatly increased over the past three years. OEMs are taking advantage of employees accepting buyouts, which enables the OEM to transition business to suppliers and lower its cost per vehicle. The optimal time to transition sub-assembly work is when new programs are launching. There are many new vehicle launches anticipated over the next three to five years as North American OEMs respond to consumer pressure, demanding they introduce new vehicles to the market.

The sequencing and sub-assembly industry is extremely competitive. There is continued pressure from customers for cost reductions through re-quoting of existing contracts.

The Company recognizes that it is difficult to compete on some of the less complex sequencing work when



bidding against significantly larger competitors who are able to bring economies of scale to bear. As a result, Automodular is focusing more of its business development efforts on the more complex sub-assembly services which contain a higher value-added element.

In 2005, for the first time in the Company's history, Automodular was awarded contracts from an OEM other than General Motors Corporation and General Motors of Canada Limited (collectively "GM"). Ford Motor Company of Canada, Limited ("Ford") awarded two major contracts to the Company to supply sequenced power train, suspension and instrument panel sub-assemblies for the new Ford Edge and Lincoln MKX programs for the reconfigured Ford flexible assembly complex located in Oakville, Ontario. The Company continues to seek to generate new business with other OEMs in order to further diversify its customer base.

At present, we employ in excess of 900 people in six operating facilities servicing three GM assembly plants and one Ford assembly plant. We operated approximately 0.6 million square feet of plant space and provided sequencing and sub-assembly services for 1.3 million vehicles in 2007.

Our operating mission statement is *"to be the world class assembler and sequencing operation to the automotive manufacturers"*. We strive to meet or exceed our customers' expectations and be competitive through continuous improvement. Our goal is zero defects.

Our core values reflect our commitment to this mission statement. They include the following:

- Highest quality in all aspects of our business
- Teamwork
- Commitment to customer satisfaction
- Respect for the individual
- Continuous improvement
- Long-term growth and profitability.

The Company currently provides services for the following platforms:

Truck plants	Oshawa, ON	Chevrolet Silverado GMC Sierra
	Oakville, ON	Ford Edge Lincoln MKX
Car plants	Oshawa, ON	Chevrolet Impala Buick Allure Buick Lacrosse
	Lordstown, OH	Chevrolet Cobalt Pontiac Pursuit / G5

2007 OVERVIEW

During 2007, the Company benefited from its significant investments in its Oakville and Oshawa truck operations. As planned, Automodular closed its less complex sequencing operations in Lansing and shut down its last Michigan facility in the third quarter of 2007.

Sales increased from \$57.9 million in 2006 to \$99.6 million in 2007 and resulted in net earnings

for the year of \$7.5 million or \$0.33 per share compared to net earnings of \$1.5 million or \$0.07 per share in 2006.

Significant events in 2007 included the following:

- Automodular announced that it expected to expand its Greater Toronto area workforce by approximately 375 personnel over the following 18 months to accommodate recent contract awards to sub-assemble and sequence commodities for North American OEMs based in Oshawa and Oakville commencing in 2008 and 2009.
- The Board of Directors approved the adoption of a Performance Share Unit Plan for designated participants in order to promote further alignment of the interests of its senior executives and encourage retention of key executives. Automodular made an initial contribution of \$0.5 million to the Plan.
- Following the early termination of certain contracts, the Company closed its remaining Lansing, Michigan facility on June 30, 2007. A charge of \$0.5 million was recorded with respect to severance, benefit and other exit costs relating to the closure of this facility.
- The Company successfully negotiated a renewal contract with the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") for its Oshawa-area workers. The contract provides improvements in wages and benefits and has a three-year term. The new contract provides the Company with greater cost certainty when bidding on potential new business.
- Automodular entered into a long-term lease for a new facility to accommodate new Oakville-area contract awards and took occupancy in the fourth quarter of 2007.
- The Company completed new bank financing comprising a three-year non-revolving \$7.0 million term loan to help fund previously announced contract awards and a \$10.0 million revolving term facility for general corporate purposes.
- The Company sold 3.9 million common shares at a price of \$2.00 per share for aggregate gross proceeds of \$7.8 million on a bought deal basis pursuant to an underwriting agreement entered into with Scotia Merchant Capital Corporation ("the Selling Shareholder"), GMP Securities L.P. and Canaccord Capital Corporation. The Selling Shareholder also sold 3 million common shares pursuant to the offering. As a result of the Offering, the Selling Shareholder's position in the Company was reduced to 21.3% from 39.9%.

RESULTS OF OPERATIONS

The Company's comparative consolidated operating results for the years ended December 31, 2007 and 2006 are as follows:

(all numbers in thousands)	2007		2006	
	\$	% of sales	\$	% of sales
Sales	99,613	100.0%	57,885	100.0%
Cost of goods sold and other expenses	81,069	81.4%	54,146	93.5%
Exit costs	508	0.5%	919	1.6%
Earnings before the following:	18,036	18.1%	2,820	4.9%
Amortization	6,667	6.7%	2,119	3.7%
Interest expense (income), net	428	0.4%	(119)	-0.2%
Foreign exchange loss (gain)	163	0.2%	(332)	-0.6%
Other income	(50)	0.0%	(884)	-1.5%
	7,208	7.3%	784	1.4%
Earnings before income taxes	10,828	10.8%	2,036	3.5%
Income taxes	3,307	3.3%	509	0.9%
Net earnings for the year	\$ 7,521	7.5%	\$ 1,527	2.6%

Sales

Automodular's sales increased from \$57.9 million in 2006 to \$99.6 million in 2007.

Canadian operations – Sales increased to \$93 million from \$39.5 million as a result of the Company's Oakville-based operations coming into full production in 2007 as well as the new truck program in Oshawa which hit full production levels at the end of the fourth quarter of 2006. Revenues in the Company's car operations were down slightly due to decreased production levels and unplanned downtime at OEM plants that we service.

US operations – Michigan-based revenues in 2007 were US\$1.7 million (CDN \$1.8 million), which represented a decrease of US\$10.1 million compared to 2006 as a result of the wind down of Michigan based operations. Pontiac operations ceased in June, 2006 and Lansing operations were wound down with the final facility closed June, 2007. Revenues from Ohio-based operations on a US dollar basis were flat year over year and on a CDN dollar basis were \$0.3 million lower as a result of the strengthening of the Canadian dollar.

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 as a result of the Company's Oakville-based operations coming into full production in 2007 as well as the new truck program in Oshawa which hit full production levels at the end of the fourth quarter of 2006.

Earnings Before Income Taxes

Earnings before income taxes increased from \$2.0 million in 2006 to \$10.8 million in 2007 as a result of the Company's Oakville crossover and Oshawa truck operations as previously mentioned. The Oakville operations hit full commercial production during the first quarter of 2007 while the Oshawa truck operations hit full commercial operations during the final quarter of 2006.

Amortization

Amortization increased substantially year over year from \$2.1 million in 2006 to \$6.7 million in 2007. The current year amortization includes amortization of Automodular's capital and start-up costs on its Oakville operations which commenced commercial production in 2007.

Interest Expense (Income), Net

Interest expense (income), net in 2007 was an expense of \$0.4 million compared to interest income of \$0.1 million in 2006. The increase in expense in the current year relates to the expensing of interest on the financing for the Company's Ford Edge/Lincoln MKX programs. In the prior year, the majority of the interest costs incurred were capitalized as pre-production expenditures.

Foreign Exchange

The Company recognized a foreign exchange loss of \$0.2 million in the current year compared to a gain of \$0.3 million in 2006 as a result of the strengthening of the Canadian dollar.

Other Income

Other income decreased from 2006 by \$0.8 million. During 2006, Automodular recognized a gain of approximately \$0.9 million (US\$0.7 million) on the sale of redundant equipment and fleet assets in its Michigan-based operations. There were no similar gains in the current year.

Income Taxes

The effective tax provision for both 2006 and 2007 is lower than the effective tax rate of 34% as a result of decreases in future statutory tax rates that have been enacted over the last two years. The Company incurred substantial pre-production costs in 2006 and 2007 which have been written off for corporate income taxes as incurred. The resulting future tax liabilities have been re-calculated using lower tax rates expected to be in effect in the years in which the timing differences are expected to reverse.

HISTORICAL ANNUAL DATA

(all numbers in thousands except per share amounts)

	2007	2006	2005
Sales	\$ 99,613	\$ 57,885	\$ 79,210
Net earnings	\$ 7,521	\$ 1,527	\$ 11,042
Earnings per share - basic and diluted	\$ 0.33	\$ 0.07	\$ 0.54
Total assets	\$ 77,235	\$ 57,400	\$ 51,328
Total long-term liabilities	\$ 11,610	\$ 4,812	\$ 2,502
Cash dividends per share	\$ -	\$ -	\$ -

2007 Versus 2006 Results

The income statement variances between 2006 and 2007 have been previously discussed. The increase in total assets year over year is primarily a result of capital and pre-production expenditures relating to the launch of the Company's Oakville-based operations. The increase in long-term liabilities represents the

additional funding Automodular secured to help fund the on-going Oakville expansion and future Oshawa-area contract awards.

2006 Versus 2005 Results

The decrease in sales between 2005 and 2006 was a result of the non-extension and termination of certain contracts in Lansing, Michigan and Pontiac, Michigan.

Net earnings in 2005 included a gain on the settlement of outstanding litigation. An agreement was reached in the fourth quarter of 2005 to settle outstanding litigation for payment to Automodular of \$11.0 million. There were no similar gains in 2006.

Total assets in 2006 increased by approximately \$6.1 million primarily due to the capitalization of pre-production costs and the purchase of capital assets in Oakville.

HISTORICAL QUARTERLY DATA – ROLLING EIGHT QUARTERS

(all numbers in thousands except per share amounts)

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$27,721	\$27,050	\$21,941	\$ 22,901	\$17,890	\$17,133	\$10,206	\$12,656
Net earnings	\$1,477	\$2,222	\$1,546	\$ 2,276	\$ 577	\$591	\$199	\$160
Per share (basic and diluted)	\$0.07	\$0.10	\$0.07	\$0.09	\$0.03	\$0.03	\$0.01	\$0.00

In our industry, the first and second quarters of the year typically generate higher earnings than the third and fourth quarters because there are a greater number of non-production days (statutory holidays and in the third quarter generally a two week closure for summer shutdown) in the latter half of the year. However, in 2007 Q1 results were relatively similar to Q3 as a result of our Oakville operations still ramping up to full production levels in Q1. Q4 earnings were inflated as a result of a reduction in the income tax provision of \$0.5 million relating to reductions in future year's statutory tax rates.

Fourth Quarter (2007)

Similar to the previous three quarters, fourth quarter operating results were substantially better in 2007 than in 2006. In 2006, Automodular had two significant programs – Oakville crossover and Oshawa truck that were ramping up production. In Oshawa, commercial production levels were reached towards the end of the fourth quarter 2006 and in Oakville commercial production levels were not reached until the first quarter of 2007. During the ramp-up phase, Automodular does not generate earnings. In the fourth quarter of 2007 Automodular did not have any programs in the ramp-up phase.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Operating Activities (all numbers in thousands)

	2007	2006
Net earnings	\$ 7,521	\$ 1,527
Non-cash items	9,213	1,160
Non-cash working capital & purchase of LTIP shares	5,030	(1,867)
Cash from operations	<u>\$ 21,764</u>	<u>\$ 820</u>

The large increase in cash from operations year over year is due to the strong earnings generated from new program launches as previously described, combined with extended payment terms negotiated on certain capital expenditures in relation to the Company's Oakville expansion.

Investing Activities (all numbers in thousands)

	2007	2006
Purchase of PP&E and pre-production costs (net)	<u>\$ (11,166)</u>	<u>\$ (18,888)</u>

Net purchases of property, plant and equipment and pre-production costs (purchases less proceeds on dispositions) decreased by \$7.7 million. The 2006 figure was driven by the launch of Automodular's Oakville operations. Current year expenditures are in large part due to the current expansion of Oakville operations to accommodate new contract awards.

Financing Activities (all numbers in thousands)

	2007	2006
Issue of common shares	\$ 7,035	\$ -
Bank indebtedness	(4,919)	4,919
Proceeds from new financing facility	7,000	6,000
Repayment of long-term liabilities	(3,994)	(3,095)
Cash from financing activities	<u>\$ 5,122</u>	<u>\$ 7,824</u>

During the current year, Automodular issued 3.9 million common shares for gross proceeds of \$7.8 million (\$7.0 million after fees and expenses, net of tax) as part of a bought deal as described earlier. The Company also used cash on hand to repay the prior year-end draw on the operating facility of \$4.9 million. An additional \$7.0 million in new financing was obtained from Automodular's primary lender to help fund current year contract awards. In 2006, the Company signed and fully drew on its new \$6.0 million equipment financing agreement to finance capital expenditures related to its new Oakville facility.

Unused and Available Financing Resources

Automodular's cash and cash equivalents on hand at year-end totaled \$15.6 million compared to bank indebtedness on a book basis at the end of 2006 of \$4.9 million (\$3.5 million excluding outstanding cheques). The Company has a \$10.0 million operating line.

Off Balance Sheet Financing

The Company's off balance sheet financing includes operating lease commitments. Total commitments for 2008 and beyond as disclosed in Note 15 of the consolidated financial statements and as set out in the chart below under "Contractual Obligations Due By Year" are \$32.6 million.

Financial Instruments

The Company is committed to an interest rate swap agreement on its new \$7.0 million Canadian credit facility which expires October, 2010. The agreement subjects the Company to a fixed rate of 8.7% and the counterparty to a floating three-month LIBOR rate plus 3.5%.

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

Contractual Obligations Due By Year (all numbers in thousands)

	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ 1,535	\$ 1,973	\$ 6,519	\$ 1,000	\$ 688	\$ -
Capital leases	\$ 614	\$ 552	\$ 442	\$ 389	\$ 47	\$ -
Operating leases	\$ 5,709	\$ 5,600	\$ 4,832	\$ 4,641	\$ 3,451	\$ 8,362
Total contractual obligations	\$ 7,858	\$ 8,125	\$ 11,793	\$ 6,030	\$ 4,186	\$ 8,362

Shareholders' Equity

Shareholders' equity increased from \$35.8 million to \$49.6 million.

The Company's contribution to the key executive long-term incentive plan ("LTIP") of \$0.5 million is included as a reduction in shareholders' equity.

Also included as a separate component of shareholders' equity is a cumulative translation loss of \$6.6 million. This loss results from the increased strength of the Canadian dollar against the US dollar (since the date the Company's Michigan-based operations were acquired) when translating the Company's Michigan-based operations to Canadian dollars. This loss has been partially offset by the realized gain on the US dollar portion of the purchase financing which has been fully paid off.

Outstanding Share Data

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

	December 31, 2007		December 31, 2006	
	# Outstanding	Dollars	# Outstanding	Dollars
Common shares	25,949,233	\$ 49,832	22,049,233	\$ 42,566

At year-end, 120,000 options to purchase common share of the Company were outstanding. Subsequent to year-end, 20,000 options to purchase common shares of the Company expired.

Related Party Transactions

During the year, the Company paid rent to a company controlled by a former member of the Board of Directors totaling \$538 (US\$501) (2006 - \$1,155 (US\$1,018)). These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

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

In November, 2007, the Company and SMCC ("the Selling Shareholder"), entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Canaccord Capital Corporation (the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a bought deal basis, 3 million common shares from the Company and 3 million common shares from the Selling Shareholder at a price of \$2.00 per share for aggregate gross proceeds to the Company of \$6.0 million and to the Selling Shareholder of \$6.0 million. The Underwriters also had the option, which they exercised, to purchase up to an additional 900,000 common shares from the Company on the same terms and conditions. The net proceeds from the treasury offering will be used by the Company for working capital and general corporate purposes. The Company did not receive any proceeds from the secondary offering by the Selling Shareholder. Each of Mr. Brenton and Mr. Davis declared their interest in the transaction and refrained from voting on the matter.

2008 OUTLOOK

Automodular enters 2008 with a strong balance sheet with cash on hand of \$15.6 million. Recently completed equity and debt financing in conjunction with expected cash flows are expected to provide the Company with sufficient liquidity to carry out its current expansions in Oakville and Oshawa and to quote on additional programs.

Automodular took possession of its second Oakville facility in December, 2007. The new facility allows the Company to support Ford Oakville assembly plant's production of the new Ford Flex which is scheduled to begin commercial production in the second quarter of 2008. While startup and training costs for the new facility will, as expected, negatively impact results in the first half of 2008, management expects that the new plant will make a positive contribution to earnings during the second half of 2008.

Concurrently, Automodular's Oshawa-area management is engaged in preparations for the planned launch in early 2009 of the Chevrolet Camaro vehicle and future vehicles to be built on the same platform. Rearrangement of GM's Oshawa-area assembly facilities will dampen first half 2008 operations but are expected to add materially to results in 2009.

Certain of Automodular's contracts to sub-assemble and sequence components for General Motors of Canada Limited's Oshawa Truck and Oshawa Car plants will end in June, 2008 and not be renewed. Accordingly, Automodular expects to close one of its Oshawa-area facilities in mid-2008. These operations reported revenues totaling \$35 million in 2007 and employ approximately 275 people.

Automodular expects 2008 results from ongoing operations to be comparable to 2007 with an improvement expected in 2009.

Automodular is looking to quote additional complex sub-assembly work in Canada and the United States. The Company is also looking to diversify its operations and is examining potential acquisitions in complementary industries where the existing management team has skills which would be transferable.

ACCOUNTING POLICY

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Company regularly examines its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

Critical Accounting Policy

The Company believes that the following accounting policy is critical because it involves significant judgment and the use of estimates.

Goodwill and Intangible Assets

As required by Section 3062 of the CICA handbook, goodwill and intangible assets must be evaluated at least annually to determine whether any impairment exists. The analysis compares the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets.

The Company evaluated the \$9.4 million carrying value of goodwill relating to its Canadian operations and concluded that no write-down is required.

Changes in Accounting Policies Expected in 2008

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how

the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Company will begin application of these sections effective January 1, 2008.

These standards will impact the Company's disclosures in future financial statements but will not affect the Company's results or financial position.

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. Management has concluded that the Company's disclosure controls and procedures, as at the end of the period covered by the annual filings, are effective in ensuring that material information is accumulated and disclosed accurately. Management believes 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.

RISK FACTORS

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

Industry Risk

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

Increased crude oil and energy prices could reduce global demand for automotive products in general or for particular customer platforms to which the Company

provides services. There can be no assurance that North American automotive production, whether global or on specific platforms, will not decline in the future or that the Company will be able to utilize any additional capacity it adds in the future. A substantial decline in the production of new North American automobiles in general or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations.

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

Recent labour agreements between North American OEMs and the United Automobile, Aerospace & Agricultural Implement Workers of America International Union (the "UAW") contain terms designed to limit the amount of outsourcing by GM to protect UAW jobs in the United States. These terms are not expected to materially reduce Automodular's growth in sub-assemblies during the term of the respective UAW agreements, but could militate against expansion of the outsourcing of such work in the United States in the longer term. The OEMs' labour agreements in Canada with the CAW expire in 2008 at which time the same issue may be tabled which may have a similar effect on the outsourcing of complex sub-assembly in Canada.

Dependence upon Key Customers

The Company has long-term contracts with GM, GM

Canada, Ford Canada and their various suppliers. The Company's sales depend on a limited number of customers and are entirely dependent on the production volumes of the OEMs for whom it provides services. Accordingly, cancellation of a significant order or the insolvency of any such customers, or reduced sales of vehicles for which we have contracts, could materially and adversely affect the Company's business. In addition, an extended work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers could have a significant impact on the Company's revenues and/or profits. 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 require that they purchase a minimum volume or value. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the capital and pre-production costs incurred by

the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

Program Delays

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

Product Warranty, Recall and Liability Risk

Automobile manufacturers are requesting more and more that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair

or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

Labour Relations Matters

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

Dependence upon Key Personnel

The success of the Company is dependent on the services of a number of the members of its senior management such as the Chief Executive Officer, Vice Presidents and 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 in the amount of \$5.0 million.

Limited Financial Resources/Uncertainty of Future Financing/ Banking

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

FORWARD-LOOKING STATEMENTS

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute “forward-looking statements”. Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or performance, or our underlying assumptions. The words “estimate, anticipate, believe, expect, intend” or other similar expressions are intended to identify forward-looking statements.

Forward-looking information involves certain risks, assumptions, uncertainties and other factors which may cause actual future results to differ materially from those expressed or implied in any forward-looking statements. In Automodular’s case, these factors principally relate to the risk with the automotive industry and include, but are not limited to: the effect of new accounting standards on our financial results; our ability to identify, close and integrate acquisitions; the ability to finance new business requirements; global economic conditions; fluctuations in interest and exchange rates; the continuation and extent of outsourcing by automotive manufacturers; our ability to meet customer needs relating to cost and quality; labour issues or disruptions; customer pricing pressures; actual levels of program production volumes differing from original expectations; our dependence on certain platforms; our relationship with and dependence on General Motors Corporation, General Motors of Canada Limited and Ford Motor Company of Canada, Limited; new program launch risks and other changes in the business environment in which we operate. Persons reading this MD&A are cautioned that forward-looking statements are only estimates and that our actual future results or performance may be materially different due to inherent risks and uncertainties surrounding future expectations, assumptions not being realized, changes in facts or other unforeseen circumstances. Except as required by continuous disclosure obligations, we do not intend, nor do we undertake any obligation, to update

or revise any forward-looking statements to reflect subsequent information, events, results, circumstances or otherwise.

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

March 6, 2008

