

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

The following MD&A of our consolidated operating results and financial position is for the three and nine-month periods ended September 30, 2008 and 2007 and should be read in conjunction with the unaudited consolidated interim financial statements for the three and nine-month periods ended September 30, 2008 and 2007 and the notes thereto as well as the Company's 2007 annual report and audited financial statements. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts in the financial statements and MD&A are shown in Canadian dollars unless otherwise indicated.

Automodular Corporation ("Automodular" or "the Company") 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. At present we employ approximately 650 people in 6 operating facilities servicing 4 OEM plants.

### THIRD QUARTER OVERVIEW

Third quarter sales of \$20.7 million in 2008 were lower than sales of \$21.9 million in 2007 and net earnings decreased from \$1.5 million or \$0.07 per share in 2007 to \$1.3 million or \$0.05 per share in 2008. Earnings year over year are lower primarily as a result of downsizing in our Oshawa operations. In the same period in 2007, GM's Oshawa truck plant was running on a 3-shift basis and effective January, 2008 they changed to run on a 2-shift basis. Additionally, the elimination of certain car platforms and consolidation of the two Oshawa car plants into one at the end of 2007 further depressed earnings year over year.

Significant events during the third quarter of 2008 included the following:

- Automodular declared and paid a dividend of \$0.03 per share on September 30, 2008.
- As disclosed in the second quarter's filings, certain contracts to subassemble and sequence components for General Motors of Canada Limited's Oshawa truck plant were extended for the remainder of the existing truck program. This program is scheduled to end production on a yet to be disclosed date in 2009. During the third quarter, the Truck operations reduced from a 2-shift operation to a 1-shift operation. As a result of this reduction, approximately 75 employees were laid off. A pre-tax charge of \$0.5 million has been recorded relating to these layoffs.
- Ford Motor Company announced the indefinite postponement of its planned third shift of production for its Oakville assembly plant which will have an adverse effect on the Company's expected future earnings.
- Automodular's Ohio operations returned to a 3-shift operation with the third shift added after summer shutdown.
- As a result of the substantial reduction in vehicle demand, Automodular's major customers have been forced to cut production to balance inventories in the face of slow demand which results in a matching reduction in the production volumes in Automodular's facilities. Substantial fourth quarter downtime was announced during the third quarter for Automodular's Oakville crossover and Oshawa truck operations.

**HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS**  
**(all numbers in thousands except per share amounts)**

|              |        | 2008   |        |        | 2007   |        |        | 2006   |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
|              | Q3     | Q2     | Q1     | Q4     | Q3     | Q2     | Q1     | Q4     |
| Sales        | 20,691 | 25,013 | 20,810 | 22,901 | 21,941 | 27,050 | 27,721 | 12,656 |
| Net Earnings | 1,295  | 1,013  | 671    | 2,276  | 1,546  | 2,222  | 1,477  | 160    |
| Per share    | 0.05   | 0.04   | 0.03   | 0.09   | 0.07   | 0.10   | 0.07   | 0.00   |

Although economic conditions have weakened and North American automotive sales are down over the last few quarters, the Company's results improved from 2006 to 2007. 2006 was a year of transition for Automodular. In the second half of the year, the majority of our operations were in a pre-production phase and earnings were not generated during that phase. As noted earlier, these operations are now at full commercial production levels. As well, our results are stronger because the vehicle platforms for which we provide services are generally among the top performing platforms for the OEMs we service. Results in the first three quarters of 2008 were lower than the first three quarters of 2007 as a result of the rationalization of GM's Oshawa truck and car operations coupled with additional production downtime as a result of a supplier strike.

When programs are operating at full production levels, sales and earnings reported during the third and fourth quarter are generally weaker than the first and second quarters of the year. In the third quarter, traditionally during early July, OEMs typically take a 2-week production shutdown. This downtime is scheduled to allow for routine maintenance on all equipment used in the production process. Fourth quarter results are generally weaker due to the additional holidays around Christmas. During the last couple of years, Automodular's results have not necessarily mirrored this cyclical nature because a substantial portion of our operations were in ramp-up mode during the first quarter of both 2007 and 2008 (as well as the previously noted discussion on 2008 YTD results). In addition, Q4 2007 earnings were inflated as a result of a reduction in the income tax provision relating to reductions in future year's statutory tax rates.

**RESULTS OF OPERATIONS**

Automodular's comparative consolidated operating results for the three and nine-month periods ended September 30, 2008 and 2007 are as follows:

**SALES**

Automodular's sales decreased from \$21.9 million during the third quarter of 2007 to \$20.7 million during the third quarter of 2008. Canadian sales were lower as a result of the reduction in scale of the Company's Oshawa-based operations partially offset by an increase in Oakville-based sales as a result of higher production volumes and the second quarter launch of the Ford Flex. US sales were flat year over year as the additional volume from the addition of the third shift of production was offset by the termination of a Tier 1 contract.

Year-to-date sales of \$66.5 million are \$10.2 million lower than the same period in 2007. Sales in all three quarters of 2008 are lower than the respective quarters in 2007. As previously stated, Canadian sales were down significantly as a result of the reduction to two shifts (from three shifts) in the Oshawa Truck operations effective January, 2008, the elimination of certain car platforms and consolidation of the two Oshawa car plants into one at the end of 2007 and the American Axle strike during the first two quarters of the year.

## EARNINGS BEFORE INTEREST, TAXES, 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 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 to \$4.2 million in the third quarter of 2008 from \$4.1 million during the third quarter of 2007. Included in the current quarter as a charge against earnings is \$0.5 million relating to the lay-off of Oshawa-area employees as a result of the elimination of the second shift of production at GM Oshawa's Truck plant.

Year-to-date EBITDA of \$10.4 million represents a \$3.2 million decrease over the same nine-month period during 2007. The year over year decline is a result of the reduction in scope of the Oshawa operations and downtime experienced during 2008.

Reconciliation of EBITDA to earnings before income taxes:

|                                | For the three months<br>ended September 30 |          | For the nine months<br>ended September 30 |           |
|--------------------------------|--|----------|---|-----------|
|                                | 2008                                       | 2007     | 2008                                      | 2007      |
| EBITDA                         | \$ 4,236                                   | \$ 4,082 | \$ 10,362                                 | \$ 13,647 |
| Amortization                   | 2,122                                      | 1,654    | 5,696                                     | 5,003     |
| Interest expense (income), net | 178  | 7        | 531                                       | 466       |
| Foreign exchange loss (gain)   | (7)  | 88       | (29)                                      | 111       |
| Other income                   | (4)  | (0)      | (48)                                      | (2)       |
|                                | 2,289                                      | 1,749    | 6,150                                     | 5,578     |
| Earnings before income taxes   | \$ 1,947                                   | \$ 2,333 | \$ 4,212                                  | \$ 8,069  |

## EARNINGS BEFORE INCOME TAXES

Earnings before income taxes decreased from \$2.3 million to \$1.9 million during the third quarter of 2008. Although EBITDA was slightly higher quarter over quarter, additional amortization of assets and pre-production costs relating to the Ford Flex launch result in lower overall earnings.

The year-to-date earnings before income taxes decreased \$3.9 million from \$8.1 million in 2007 to \$4.2 million in 2008 for the reasons noted above.

## AMORTIZATION

Amortization for the current quarter of \$2.1 million is \$0.5 million higher than the third quarter of 2007 and year-to-date of \$5.7 million is \$0.7 million higher than 2007. The increase is in large part due to the amortization of capital and pre-production expenditures relating to the Ford Flex which entered into commercial production in the second quarter of 2008.

## **INTEREST**

Interest expense is \$0.2 million higher in the third quarter of 2008 than in the third quarter of 2007. No interest was capitalized in the current quarter as the Ford Flex entered commercial production in the second quarter.

## **INCOME TAXES**

The Company's effective income tax rate is lower as a result of the reduction in statutory rates in the fourth quarter of 2007 coupled with the elimination of the Ontario capital tax retroactive to January, 2007 which resulted in a recovery of previously expensed amounts.

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

### Operating activities

Cash used in operations of \$2.0 million in the third quarter of 2008 compares to cash provided by operations of \$6.0 million in the same period of 2007. The lower amount is largely a result of working capital payments relating to accounts payable.

Year-to-date cash used in operations of \$0.2 million compares to \$14.4 million cash provided by operations during the same period of 2007. The decrease is a result of lower earnings and additional amounts invested in working capital.

### Investing activities

Net cash expenditures of \$2.4 million during the third quarter compares to spending of \$3.1 million during the same period of 2007. The current period's expenditures relate primarily to capital and pre-production expenditures incurred for Oakville's Ford Flex program and capital expenditures for GM Oshawa's Camaro program. During the same quarter last year, expenditures related primarily to the Ford Flex program and spending on the Camaro program had not yet commenced.

Year-to-date net cash expenditures of \$10.7 million compare to net spending of \$5.8 million during the same period of 2007. The increase in net cash expenditures year over year is for the reasons noted above.

### Financing activities

Repayment of long-term liabilities in the third quarter includes \$0.6 million relating to the term credit and equipment financing facilities with the balance relating to capital leases. In the third quarter, Automodular declared and paid a dividend to shareholders totaling \$0.8 million. There were no dividends paid in 2007.

In 2007, financing activities included the repayment of funds withdrawn on the Company's operating facility of \$1.2 million.

Year-to-date cash used by financing activities of \$2.3 million compares with cash used by financing activities of \$7.6 million during the same period of 2007. The prior year figure included \$4.9 million of repayments relating to the Company's operating facility. Repayment of long-term liabilities of \$1.6 million is lower than \$2.7 million in the prior year due to the lower repayments required on the Company's term credit facility that was renegotiated in the fourth quarter of 2007.

## **UNUSED AND AVAILABLE FINANCING RESOURCES**

Automodular has cash on hand of \$2.5 million compared to \$0.8 million at the end of the third quarter of 2007. The Company has available to it a \$10 million operating line.

## **SHAREHOLDERS' EQUITY**

Shareholders' equity increased from \$49.6 million at December 31, 2007 to \$51.6 million at September 30, 2008 primarily as a result of year to date 2008 earnings less the dividends that were paid in the third quarter. Shareholders' equity was reduced by \$0.5 million due to an additional contribution to the long-term incentive plan for certain key executives. There are 25,949,233 shares issued and outstanding as at the date of this filing.

## **OUTLOOK**

The worsening economic climate has drastically reduced the demand for vehicles for the automotive industry as a whole and our customers specifically. The weakening demand has resulted in our customers eliminating plans for a third shift of production in Oakville and scheduling down weeks in both our Oshawa and Oakville operations in the third and fourth quarter of 2008 to rebalance inventory levels. The outlook for the next few quarters is for a continuation of these trends. As a result, Automodular cannot reasonably predict sales or profits for its operations, which have been and are subject to repeated customer assembly plant shutdowns in both Oakville and Oshawa.

The Company's two largest customers are currently rated as below investment grade by credit rating agencies, and in the event that they are unable to satisfy their financial obligations or seek protection from their creditors, the Company may incur additional expenses as a result of such credit exposure. Management is investigating options to mitigate the exposure. Substantially all of the accounts receivable outstanding at September 30, 2008 have been paid as of the date of this filing.

At the current time, Automodular is launching two programs, one in Oshawa and one in Oakville. Automodular has installed capital equipment and is assembling the team and resources to begin production of the new Camaro in Oshawa scheduled for February 2009 start up. This exciting new vehicle, if well received by customers, will contribute to improved sales and profits in 2009. A similar initiative is underway in our Oakville operations for the new Lincoln MKT vehicle which is scheduled to launch in 2009.

In light of the current environment, Automodular is taking a conservative and cautious approach to expansion, declining to quote customers for programs where there are high capital requirements or significant volume risks associated with the proposed vehicle(s).

## **ACCOUNTING AND CONTROL MATTERS**

### **Changes in Accounting Policies and New Accounting Pronouncements**

The unaudited interim consolidated financial statements of the Company and notes thereto for the three and nine-month periods ended September 30, 2008 have been prepared using the same accounting principles and methods as were used for the audited consolidated financial statements for the years ended December 31, 2007 and 2006, except for the following new accounting pronouncements which have been adopted effective January 1, 2008:

As required by the Canadian Institute of Chartered Accountants, on January 1, 2008, Automodular adopted three new accounting standards: CICA Handbook 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.

Effective October 1, 2008 Automodular has elected the early adoption of CICA Handbook Section 3064, Goodwill and Intangible Assets. This revised section requires that pre-production and startup costs like those incurred during the Company's new program launches be expensed as incurred. The Company's 2008 annual financial statements will be re-stated to reflect this change.

### **Disclosure Controls and Procedures**

Automodular's Management has designed and evaluated the effectiveness and operations of its disclosure controls and procedures, as defined under Multilateral Instrument 52-109 of the Canadian Securities Administrators.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud.

Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company's disclosure controls and procedures are effective at September 30, 2008.

### **Internal Controls over Financial Reporting**

Automodular's Management has designed internal controls over financial reporting, as defined under Multilateral Instrument 52-109 of the Canadian Securities Administrators.

The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the annual and interim financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

There have been no changes in the Company's internal controls over financial reporting during the third quarter ended September 30, 2008, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **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. Persons reading this MD&A are cautioned that such statements are only estimates, and that our actual future results or performance may be materially different.

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**

Additional information regarding the Company, including the Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.automodular.com](http://www.automodular.com)