

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

For the Three Month Periods Ended March 31, 2010 and 2009

The following Management Discussion and Analysis (“MD&A”) was prepared as of May 12, 2010 and should be read in conjunction with the unaudited consolidated interim financial statements for the three-month periods ended March 31, 2010 and 2009 and the notes thereto as well as the Company’s 2009 annual report and audited financial statements. The financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All dollar amounts in the financial statements and MD&A are shown 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.

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. At present, we employ approximately 650 people in 4 operating facilities servicing 3 OEM plants.

FIRST QUARTER OVERVIEW

First quarter sales of \$24.8 million were substantially higher than first quarter 2009 sales of \$13.2 million and generated a net loss in 2010 of \$(0.2) million or \$(0.01) per share compared to a net loss in 2009 of \$(1.0) million or \$(0.04) per share. The current quarter includes a charge of \$4.8 million related to GM’s decision to terminate our Oshawa-area contracts in September, 2010. Excluding this charge, operating results were substantially ahead of 2009 as a result of strong operating volumes in our Oakville and Oshawa-area operations. In comparison, the first quarter of 2009 included a combined 23 weeks of unscheduled production downtime as OEMs sought to rebalance inventory levels against the backdrop of substantially reduced vehicle demand.

Significant events during the first quarter of 2010 included the following:

- Strong daily production volumes that started in the fourth quarter of 2009 carried over into the first quarter of 2010 in both our Oakville and Oshawa-area operations.
- On March 31, 2010, Automodular repaid in full its Roynat and Scotiabank term credit facilities. Under the terms of the loans they were to be repaid on August 15, 2012 and October 5, 2010, respectively. Surplus cash was utilized to repay these loans early in order to reduce future interest charges.
- During the first quarter of 2010, Automodular received written notice from GM demanding an approximately 50% reduction in the price of its services to GM’s Oshawa Car assembly plant or risk losing the business as early as the third quarter of 2010. Automodular did not meet these demands and accordingly received a formal notice of contract termination from GM on April 13, 2010. The current

quarter's results include an accrual of \$1.5 million relating to expected severance costs in accordance with existing labour law and an asset impairment charge of \$3.3 million on property, plant and equipment currently used in the Oshawa-area operations. Additional costs will be recorded in future periods and are more fully described in the section on Exit costs.

RESULTS OF OPERATIONS

Automodular's comparative consolidated operating results for the three-month periods ended March 31, 2010 and 2009 are as follows:

SALES

Automodular's sales increased from \$13.2 million in 2009 to \$24.8 million in 2010 for the reasons noted below:

Canadian operations: Sales increased from \$12.7 million to \$24.1 million in 2010. Sales in the Company's Oakville-area operations were more than three times higher in 2010 than in 2009. In the first quarter of 2009, our Oakville operations experienced 7 weeks of downtime; in the first quarter of 2010, there were no downweeks and daily volumes remained above historical run-rates. Our Oshawa-area operations reported approximately 40% lower sales in 2010 than in 2009. In 2009, our Oshawa-area sales includes revenues relating to our Montecorte truck operations which wound down in the second quarter of 2009.

US operations: US-based revenues of US\$0.7 million were approximately US\$0.2 million higher in 2010 than in 2009. Ohio-based operations experienced more downweeks in 2009 than in the first quarter of 2010.

COST OF GOODS SOLD AND OTHER EXPENSES

Cost of goods sold and other expenses increased from \$11.3 million in the first quarter of 2009 to \$17.8 million in the first quarter of 2010. The increase is a result of the significant reduction in production downweeks period over period. During production downweeks, Automodular is able to avoid certain costs such as wages, freight and variable overheads.

PREPRODUCTION COSTS

Preproduction costs for the first quarter of 2010 total \$0.5 million and are consistent with the first quarter of 2009. Expenditures in the current period relate to the pre-launch costs for the 2011 model year change. Expenditures in the prior period related primarily to the pre-launch costs for the Lincoln MKT which launched in the third quarter of 2009. Pre-launch costs related to the Chevrolet Camaro were funded by GM so are not included in the 2009 figures.

EXIT COSTS

Exit costs for the first quarter of 2010 total \$1.8 million compared to \$1.4 million in the same quarter in 2009. In its April 14, 2010 press release announcing the termination of the GM Oshawa-area contracts, Automodular estimated the impact of the cancellation on its financial statements to be approximately \$7.0 million after tax. In the current quarter, Automodular has revised its estimates as noted herein and in the section entitled “*Property, Plant and Equipment Impairment Charge*”. The current quarter includes a \$1.5 million charge relating to estimated severance costs for salaried and hourly workers in accordance with the Employment Standards Act. Automodular may record additional severance costs relating to the closure of its final Oshawa-area facility when it formalizes its communication plan to the affected employees. Automodular expects that the additional amount could be between zero and \$0.8 million. Automodular expects to incur additional expenditures relating to the closure of its Oshawa-area operations in the third quarter when the facility is closed. These include but are not limited to facility cleanup, residual operating leases and lease inducements. Automodular currently estimates these expenditures to be between \$2.0 and \$3.0 million. The balance of the exit costs in the current quarter relate to facility costs incurred on the Company’s Montecorte facility that is currently listed for sub-lease.

The first quarter of 2009 included severance costs relating to the Company’s closure of its Montecorte operation. The Montecorte operation supported GM Oshawa’s truck operations which closed in the second quarter of 2009.

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 \$0.1 million in 2009 to \$4.6 million in 2010 for the reasons noted below:

Canadian operations: EBITDA in our Canadian operations improved substantially compared to the first quarter of 2009 as a result of improved production volumes in our Oakville-area operations. EBITDA from our Oshawa-area operations decreased from 2009 as the scope of our operations decreased in size from 2009.

US operations: EBITDA from our US operations was marginally ahead of 2009 and essentially a breakeven for the first quarter of 2010.

Reconciliation of EBITDA to earnings before income taxes:

(all numbers in thousands)	For the three months ended March 31	
	2010	2009
EBITDA	<u>\$4,630</u>	<u>\$82</u>
Amortization	1,455	1,302
Property, plant and equipment impairment charge	3,250	-
Interest expense, net	208	161
Other expense (income)	6	(8)
	<u>4,919</u>	<u>1,455</u>
Earnings (loss) before income taxes	<u>\$(289)</u>	<u>\$(1,373)</u>

EARNINGS BEFORE INCOME TAXES

Loss before income taxes of \$(0.2) million in the current quarter compares to a loss before income taxes of \$(1.4) million in the same quarter of 2009. Excluding the impact of the \$4.8 million charge recorded relating to the early termination of our Camaro contracts, operating earnings were substantially higher than in the first quarter of 2009. Vehicle sales have rebounded substantially since the first quarter of 2009 and as a result production volumes are much stronger which resulted in higher sales and earnings.

AMORTIZATION

Amortization of \$1.5 million in the first quarter of 2010 is \$0.2 million higher than the first quarter of 2009 primarily as a result of amortization on assets put into use in 2009 for the Camaro and Lincoln MKT vehicle programs.

PROPERTY, PLANT AND EQUIPMENT IMPAIRMENT CHARGE

The current quarter charge of \$3.3 million relates to the property, plant and equipment currently used in our Oshawa-area operations for our GM contracts. As a result of the announced termination of our contracts effective September, 2010, Automodular performed an analysis which compared the current net book value with expected future earnings expected on the contracts and an estimated recovery on sale or disposition of the assets and concluded that an impairment charge of \$3.3 million was warranted. Automodular will review all exit costs and impairment charges with respect to the closure of its Oshawa-area operations on a quarterly basis and will adjust as circumstances warrant.

INTEREST EXPENSE, NET

Interest expense in the current period of \$0.2 million is essentially flat to 2009. Automodular repaid its two term credit facilities on March 31, 2010. Accordingly, reported interest expense in future reporting periods is expected to be lower.

INCOME TAXES

The effective tax rate for the current year is approximately 30% and is essentially consistent with the prior year.

HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(All numbers in thousands except per share amounts)

	2010		2009			2008		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
		\$	\$	\$	\$	\$	\$	\$
Sales	24,801	13,242	24,103	15,112	22,804	25,013	20,691	16,421
Net earnings	(202)	(972)	2,576	(1,069)	2,139	1,639	2,021	(10,348)
Per share (basic and diluted)	(0.01)	(0.04)	0.10	(0.04)	0.08	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. In the first quarter of 2010 we are reporting strong sales results, however, earnings are impacted by the \$4.8 million charge relating to GM's termination of our existing Oshawa-area contracts. In 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.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Cash generated from operating activities of \$7.2 million in the first quarter of 2010 compares to cash generated from operations of \$1.6 million in the same period in 2009. The increase is primarily due to higher cash operating earnings in the first quarter of 2010 as a result of stronger production volumes.

Investing activities

Net purchases of property, plant and equipment (purchases less proceeds on dispositions) decreased by \$0.5 million compared to 2009. Current period expenditures related to the Ford Edge 2011 model year change whereas 2009 expenditures related to capital spent on the Lincoln MKT and Chevrolet Camaro programs. Automodular also spent \$0.1 million in the current quarter on investments in marketable securities. There were no similar investments made in the same quarter in 2009.

Financing activities

Repayments of long-term liabilities of \$8.3 million in the current quarter included the repayment of Automodular's two term credit facilities. This compares to repayments of long-term liabilities of \$0.5 million in 2009. All of Automodular's outstanding long-term liabilities at this time relate to capital leases.

UNUSED AND AVAILABLE FINANCING RESOURCES

Automodular's cash on hand at quarter end totaled \$2.8 million compared to \$5.1 million at the end of 2009. The Company has an undrawn \$10.0 million operating line. Automodular repaid its term credit facilities in the current quarter and its balance sheet remains strong. Automodular 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.

FINANCIAL INSTRUMENTS

As part of the repayment of its term credit facility with Scotiabank, Automodular unwound its interest rate swap agreement and paid a fee of \$0.1 million.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased from \$37.6 million at December 31, 2009 to \$37.2 million at March 31, 2010 as a result of the loss in the current quarter and a \$0.3 million unrealized loss on marketable earnings.

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)

	March 31, 2010		December 31, 2009	
	# Outstanding	Amount	# Outstanding	Amount
Common shares	25,949,233	\$ 49,832	25,949,233	\$ 49,832

From March 31, 2010 to the date of this filing there has been no change in the number of shares outstanding.

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 Oshawa, GM formally communicated the termination of Automodular's Camaro contract effective September, 2010 subsequent to quarter-end. During the current quarter, Automodular recorded a \$4.8 million charge relating to this announcement. The charge included \$1.5 million in estimated statutory severances and a property, plant and equipment impairment charge of \$3.3 million. Additional costs will be recorded in future periods including potential adjustments to severance accruals, facility costs (including lease inducement charges), and residual non-facility leases. Automodular will continue to examine and revise its estimates as circumstances change. Automodular has instructed its counsel to prepare a statement of claim against GM for damages of \$20.0 million arising from GM's termination of these contracts. There can be no assurance that Automodular will be successful in its claim or that it will recover any amounts from GM.

In Oakville, we continue to enjoy strong production volumes. 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 with final production scheduled for the end of the second quarter. The closure is not expected to have a material impact on the Company. 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.

During the current quarter, Automodular used excess cash on hand to repay in full its two term credit facilities. Automodular entered the second quarter of 2010 with a strong balance sheet with cash on hand of \$2.8 million and an undrawn \$10.0 million line of credit.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

There were no changes to our significant accounting policies or critical accounting estimates during the current quarter.

CHANGES IN ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Company and notes thereto for the three-month period ended March 31, 2010 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, 2009 and 2008.

There were no changes in accounting policies during the quarter ended March 31, 2010.

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.

During our MD&A for the years ended December 31, 2009 and 2008 we provided a detailed overview of our IFRS changeover plan. We have almost completed Phase 1 of our plan which involves the identification of all significant areas of difference between Canadian GAAP and IFRS with respect to our accounting policy. We expect to begin Phase 2 in the second quarter of 2010 which will involve the assessment of the impact of the differences and the design of solutions to address them, focusing initially on those differences that may require changes to our financial systems or that are more complex or time-consuming to resolve. Management will procure the appropriate resources to ensure the changeover is completed on a timely basis. We will also ensure that training needs will be continually addressed throughout the transition period.

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.

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

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, which includes 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 March 31, 2010.

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 quarter ended March 31, 2010, 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” 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. Specific forward-looking information in this document includes that relating to cost estimates surrounding the termination of Oshawa-area contracts, the outcome of any claims against GM, demand expectations around the 2011 Ford Edge Model year change, the expected closure of Automodular’s Ohio-area operations and expected recognition of the cumulative translation adjustment.

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.

May 12, 2010