

## **MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION**

### **For the Three-Month Periods Ended March 31, 2013 and 2012**

This Management Discussion and Analysis (“MD&A”) is for the three-month periods ended March 31, 2013 and 2012 and should be read in conjunction with Automodular Corporation’s 2012 annual report and audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards (“IFRS”). All dollar amounts in the consolidated 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’s primary business is the sequencing and sub-assembly of modules for installation in final products being assembled by the Original Equipment Manufacturer (“OEM”). This service is provided within the automotive and renewable energy sectors. The nature of the service does not change significantly depending on the end product or industry to which the service is provided.

With respect to the automotive sector, Automodular uses component parts to sub-assemble complicated modules, such as an instrument panel or a radiator support, for installation in vehicles being assembled by its customer, Ford Motor Company (“Ford”) in Ontario. Also, Automodular provides sequencing services such that the sub-assembled modules arrive at the customer’s final assembly plant in precisely the sequence of their final installation in each vehicle and at precisely the time they are to be installed.

With respect to the renewable energy sector, Automodular sub-assembled certain components to be used in wind turbine units. This contract was successfully completed in the fourth quarter of 2012 and the Company is actively engaged in efforts to secure additional contracts in this sector.

#### **FIRST QUARTER OVERVIEW**

Automodular generated net earnings of \$3.6 million or \$0.18 per share in the first quarter of 2013 compared to net earnings of \$3.6 million or \$0.18 per share in the same quarter of 2012. Automodular’s automotive operations experienced higher operating volumes and the resultant earnings contribution, combined with lower general and administrative expenses and higher interest and other income, offset the contribution realized from the Vestas contract in the first quarter of 2012.

Significant events during the first quarter of 2013:

- On January 23, 2013 the Board of Directors declared a \$0.06 regular quarterly dividend which was paid March 4, 2013 to shareholders of record February 6, 2013.

## RESULTS OF OPERATIONS

Automodular's comparative consolidated interim operating results for the three month periods ended March 31, 2013 and 2012 are as follows:

<i>(thousands of Canadian dollars)</i>	For the three months ended March 31,	
	2013	2012
	\$	\$
Sales	21,807	23,818
Cost of sales	15,813	17,498
<b>Gross margin</b>	5,994	6,320
General and administrative expense	1,222	1,342
Interest (income), net	(47)	(29)
Other (income)	(122)	(36)
<b>Earnings before income taxes:</b>	4,941	5,043
Current income taxes	1,404	1,487
Deferred income taxes	(99)	(75)
<b>Net earnings attributable to the shareholders for the period</b>	<b>3,636</b>	<b>3,631</b>

### Sales

Sales of \$23.8 million in the first quarter of 2012 included sales under the Company's renewable energy contract. Sales in the first quarter of 2013 did not include any amounts under this contract, as the contract was successfully completed during the final quarter of 2012.

### Cost of sales

Cost of sales decreased to \$15.8 million in the first quarter of 2013 from \$17.5 million in the first quarter of 2012. The decrease is largely due to the 2012 inclusion of the renewable energy contract, which included the purchase of materials as directed by our customer.

### Depreciation

Depreciation of \$1.8 million in the first quarter of 2013 is \$0.2 million higher than the first quarter of 2012.

### Gross margin

Gross margin for the first quarter of 2013 was \$6.0 million, compared to \$6.3 million during the same period in 2012. This decrease is predominately due to the work performed with respect to the renewable energy contract during the first quarter of 2012.

### General and administrative expense

Quarterly general and administrative expense was slightly lower than the previous year at \$1.2 million due to a decrease in executive management costs and public company costs.

### Interest (income), net

Interest (income), net has changed slightly from the same period in 2012 due to decreased interest expense on long-term liabilities and increased interest income generated on excess cash held.

### Other (income)

The Company earned other (income) of \$0.1 million in the three-month period ended March 31, 2013 compared to a nominal amount during the same period of 2012. This difference is due the reversal of a previously recognized loss upon the sale of certain investments during the current period.

### Earnings before income taxes

Earnings before income taxes of \$4.9 million for the first quarter was relatively consistent with the \$5.0 million earned during the same quarter of 2012 for the reasons discussed above.

### HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(thousands of Canadian dollars except per share amounts)

	2013		2012					2011		
	Q1		Q1	Q2	Q3	Q4		Q2	Q3	Q4
	\$		\$	\$	\$	\$		\$	\$	\$
Sales	21,807		23,818	29,701	35,359	27,075		18,537	18,969	22,134
Net earnings	3,636		3,631	4,388	4,243	4,518		2,550	2,333	3,806
Per share (basic)	0.18		0.18	0.22	0.21	0.22		0.13	0.12	0.18
Per share (diluted)	0.18		0.18	0.21	0.21	0.22		0.13	0.12	0.18

In the automotive 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 throughout and the third quarter generally has a two-week closure for summer shutdown) in the latter half of the year. Our results in the second through the fourth quarters of 2012 were bolstered by the renewable energy contract with Vestas. In addition, during the fourth quarter of 2011, higher incremental daily production volumes resulted in higher net earnings.

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

#### Operating activities

Net cash of \$3.9 million provided by operating activities year-to-date is approximately \$2.8 million higher than the same period in 2012 mainly due to the timing of cash flows related to income tax installments and other working capital items.

#### Investing activities

Year-to-date net purchases of investments and plant and equipment (purchases less proceeds on disposals) are \$0.5 million lower than the same period in 2012 largely due to the inclusion of proceeds on disposal of investments sold in 2013 and lower purchases of plant and equipment during the current quarter.

#### Financing activities

During the first quarters of 2013 and 2012, Automodular paid dividends totaling \$0.06 per common share. Dividends for both periods are shown in the financial statements net of internal dividends. During 2012, the Company repaid its remaining capital leases.

#### Financing resources

Automodular's cash on hand at quarter-end totaled \$27.7 million compared to \$25.0 million at the end of 2012. Automodular expects that its cash on hand and expected cash flows from operations are sufficient to fund the needs of the Company during the remainder of the 2013 fiscal year.

### Shareholders' equity

Shareholders' equity increased from \$40.8 million at December 31, 2012 to \$43.2 million at March 31 2013, primarily as a result of strong operating results, partially offset by the payment of dividends.

### OUTSTANDING SHARE DATA

*(thousands of Canadian dollars except share amounts)*

	March 31, 2013		December 31, 2012	
	Outstanding #	Amount \$	Outstanding #	Amount \$
Common shares outstanding	20,212,849	44,222	20,212,849	44,222

The above figures represent the gross shares outstanding inclusive of treasury shares held in the long-term incentive plan.

From March 31, 2013 to the date of this filing there has been no change in the number of shares issued and outstanding.

### FIRST QUARTER 2013 RECAP AND 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 which includes a list of material factors and assumptions applied in providing these forward-looking statements.

Automodular's results for the first quarter 2013 are in line with the same quarter of 2012. We experienced stronger operating volumes in our automotive operations, lower general and administrative expenses and higher interest and other income this quarter than in the first quarter of 2012. These factors resulted in slightly improved operating earnings despite the fact that 2012 results were bolstered by the Vestas contract.

Automodular has not yet received notification from Ford with respect to the new vehicle program scheduled to start towards the end of 2014. We recognize the impact that the uncertainty has on our various stakeholders including our employees and shareholders. Automodular will promptly communicate the outcome of the outstanding quotation when we are informed of a decision by Ford. In the interim it is critical that we maintain our focus on health and safety and quality performance and continue to meet or exceed Ford's expectations. There can be no assurance that Automodular will be successful in its quotation.

Automodular's balance sheet remains strong and operating volumes and cash flows continue to be robust. Automodular continues to carry excess cash on hand in order to help fund diversification initiatives once they are identified by the Company.

Automodular's diversification efforts are ongoing. The Company recognizes the importance of mitigating its economic dependence on Ford and the management team is focused on this initiative. Automodular continues to examine opportunities that will leverage the complex manufacturing and project management skills of Automodular's management team and workforce.

The Board of Directors has declared a regular quarterly dividend of \$0.06 per common share payable on June 6, 2013 to shareholders of record on May 23, 2013.

## **SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

Automodular's management has designed and evaluated the effectiveness and operation 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, 2013.

## **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 IFRS, focusing in particular on controls over information contained in the annual and interim consolidated 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 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting, during the quarter ended March 31, 2013.

## **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 or renewable energy 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 expected future cash flows from operations are sufficient to fund the needs of the Company during the remainder of the 2013 financial year, that Automodular's statement of financial position remains strong and operating volumes and cash flows continue to be robust,

that Automodular expects Ford will be communicating its decision regarding Automodular's outstanding quotation in the near future and that Automodular is continuing to actively seek out additional new diversification initiatives.

By its nature, forward-looking information involves certain risks, 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 following:

- the cyclical nature of the automotive industry and its dependence on consumer spending;
- our relationship with and dependence on Ford Motor Company;
- in respect of the renewable energy sector – the impact of changes in political parties and existing incentive programs and pricing for conventional sources of energy;
- our ability to identify, close and integrate acquisitions;
- our ability to finance new business requirements;
- North American and global economic and political 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;
- our dependence on key personnel;
- customer pricing pressures;
- actual levels of program production volumes differing from original expectations;
- our dependence on certain platforms;
- new program launch risks, including program delays and other changes in the business environments in which we operate;
- limited financial resources;
- 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 for the year ended December 31, 2012, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

May 9, 2013