



SECOND QUARTER 2013

LETTER TO SHAREHOLDERS:

On May 14th, Automodular received the decision from Ford that, in the fourth quarter of 2014, Ford would insource the assembly work currently performed by Automodular. Ford acknowledged the continuous support, hard work and high quality assembly performed by Automodular since production started in the fourth quarter of 2006. Ford noted that the decision on their part was a strategic one; they view the modules that Automodular assembles to be “core” to the assembly of a vehicle and their goal is to try to have all core modules assembled in their final assembly plants. While we are disappointed by Ford’s decision and recognize the impact that it will have on our many stakeholder groups, we also believe that our Company has a strong management team focused on building value. Automodular possesses considerable skillsets that are complementary to many businesses outside of the automotive space. We would like to take this opportunity to provide our shareholders with an update on what the Ford insourcing decision means to our business and our plans for the future.

Our existing multi-year agreement with Ford is set to expire on June 30, 2014. Ford has requested that we continue to provide assembly services until a yet to be determined date in the fourth quarter of 2014. Once Ford defines the actual end date, we will enter into commercial discussions for the relevant extension period. In conjunction with those discussions, we will be meeting with the National Automobile, Aerospace, Transportation & General Workers Union of Canada (“CAW”) leadership in the near term to secure a contract extension in line with the commercial extension that Ford is seeking. Automodular will continue to provide support to the CAW and Ford to facilitate the transition of as many members of our workforce as possible to Ford.

We have estimated the total closure costs to be an incremental charge of \$8.0 million. In addition, Automodular already carries on its balance sheet a decommissioning provision of \$0.5 million. The total of these two figures reflects the total estimated costs to shut down our Oakville operations and includes hourly and salaried employee severance costs, operating lease termination costs and all other facility closure related costs. Of the \$8.0 million amount, we took a charge of \$4.0 million in the current quarter to reflect our contractual and statutory obligations to our hourly and salaried employees. We expect to record additional severance costs relating to the closure when we formalize our plans with respect to the affected salaried employees. We also expect to record facility and other related closure costs at the time that they are incurred or at the time the facilities are closed, depending on their nature. It is expected that the majority of the additional expected costs will be recorded in 2014. Given the long lead time before the insourcing of the work by Ford, it is expected that the total closure cost figure will fluctuate. The Company will continue to re-examine its cost estimates on a quarterly basis and will revise these estimates as circumstances change or additional information comes available.

From an operations perspective, our Oakville operations continue to run well. Our quality performance and health and safety metrics remain strong. Our Oakville hourly and salaried staff should be commended for their hard work and dedication in what has been a very difficult few months for them – first from delays with respect to Ford making their decision and then finally receiving the news that, despite the outstanding job they have done over the last six and a half years, Ford is insourcing the business. Production volumes are nominally up over the prior year-to-date period and earnings are relatively consistent with the same period in 2012 excluding the impact of the closure costs. Our business has generated levels of earnings and cash flows over the past three years that significantly outperformed traditional finance ratios or benchmarks such as price/earnings, price/book, return on assets or yield. Since late 2010, Automodular has benefitted from strong demand for the vehicles that Ford’s Oakville Assembly Plant produces. Annual production volumes have consistently exceeded the traditional two shift volume operating pattern. As Automodular is compensated by Ford on a fully variable basis, we have benefitted from these incremental units as the gross margin on the incremental units is higher than on the base production units. Our challenge will be to continue to maintain our operating performance in light of the expected departure of salaried and hourly staff as our contract winds down.

As you would expect given the Ford decision, we have received many enquiries over the last couple of months on a variety of topics. We wanted to take this opportunity to respond to a few of the more common questions that we have received.

Are you going to wind-down the Company next year given the Ford announcement?

The Board, together with the management team and outside advisors, has been focused on delivering continuing value both now and into the future after the Ford contract concludes. While winding down the Company is one option, it is not an area of focus at this time. Automodular possesses considerable skills with our project management and lean manufacturing skills being at the forefront and it would be unfortunate if those were to go to waste. Our goal is unchanged – we are looking to find opportunities to leverage our core skills for the betterment of the Company and its shareholders by securing contracts organically or through acquisition.

While the trend to insource assembly work by the North American Original Equipment Manufacturers (“OEMs”) limits opportunities in the automotive assembly space, we see numerous opportunities in other businesses that complement our skillsets. On the renewable energy side, we continue to have discussions with Vestas and other wind-based OEMs regarding opportunities in Canada and overseas. Now that Automodular has successfully completed its first contract in the wind energy space, we are seeing additional interest from other potential customers. In addition, we continue to work with outside consultants and other contacts to generate potential opportunities in other industry segments where our skills could be utilized. Some other sectors which are currently being considered include but are not limited to: agricultural equipment, modular construction, aerospace, consulting and industrial equipment fabrication.

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 evaluated by the Company. We will not rush into doing a transaction just for the sake of completing a transaction. Our focus is on finding the right fit for Automodular – one that will be accretive to earnings and where there is a real fit with our core skills and values.

Are we planning on cancelling or suspending the dividend policy in light of the Ford announcement?

At this time our Board has no plans to suspend or cancel the existing dividend policy. Automodular closed the second quarter with \$31.4 million in cash and cash equivalents and expects to continue to be profitable and generate positive cash flows over the balance of our Ford contract. At this time, we do not expect that the payment of dividends in accordance with our policy will impair our ability to secure additional contracts or hamper any potential acquisitions. Our Board will continue to review the payment of dividends on a quarterly basis in conjunction with the review of our quarterly financial results. At its August 6th meeting, the Board of Directors declared a regular quarterly dividend of \$0.06 per common share payable on September 3, 2013 to shareholders of record on August 20, 2013.

The Automotive industry seems to be doing well, so why are you losing the Ford contract and why haven’t you secured other business from Ford or other OEMs?

The North American automotive industry has been doing well and annual sales volumes have rebounded from the economic downturn of 2008/09. It is important to remember, however, that our business is to provide just-in-time assembly of modules -- we do not design or manufacture parts. Our business is based on our ability to deliver defect-free modules to our customer 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. Our business has historically been with two of the North American OEMs – Ford and General Motors. The reason that we have not had contracts with non-North American OEMs is twofold – generally they do not outsource the assembly of modules and want to build the vehicles 100% in-house and the labour costs they incur are not dissimilar to those incurred by Automodular.

As disclosed in previous filings, the North American OEMs have been able to reset their internal cost structures, due in large part to the 2009 bankruptcy protection filings of General Motors and Chrysler. This enabled them to discard unprofitable brands and vehicles and eliminate many financial obligations. At the same time, all three North American OEMs approached both the UAW and CAW and won sizeable concessions resulting in lower effective labour costs. Automodular has made efforts to similarly reduce its cost structure but has been unable to obtain similar concessions. As

a result, the differential between our fully loaded labour rate and that of our customers is smaller than it once was. We now receive fewer opportunities to quote assembly services as the trend from the OEMs is to insource work.

Why have insiders been buying shares since the Ford announcement?

Following the Ford announcement, certain members of management and one of the Company's outside directors purchased approximately 0.25 million common shares in the open market. The other insider purchases related to the purchase by the Company, under the current NCIB, of approximately 0.4 million shares at an average price of \$1.63. Automodular made the purchases because the Board was of the view that the share price did not reflect the underlying value of the Company in spite of the Ford announcement; and the investment represented a good use of the Company's excess cash. Automodular has been in an internally imposed blackout since the close of business on June 30, 2013 due to quarter-end and accordingly, no further purchases can be made under the NCIB. The NCIB is set to expire on August 7, 2013.

Where does the GM litigation stand?

Complex commercial litigation, such as our litigation with GM, by its very nature is a slow and arduous process. Since our last quarterly update, we have been working on preparing materials as part of the electronic discovery process. To put it in context, our original document set had over 100,000 documents/emails. It takes a long time to filter through the documents to isolate the documents that are relevant to the matters at hand. All parties have now agreed on the discovery plan including the timeline for the exchange of documents and we are expecting examinations for discovery to occur in the beginning of 2014. If there is no resolution following the discovery process we would then be looking for the matter to get set down for trial.

Automodular has a strong, experienced management team and an engaged and responsive Board. We have a solid balance sheet with over \$31 million in cash on hand at June 30, 2013. Our contract with Ford is expected to run at a minimum for another four quarters and we expect to generate positive earnings and cash flows over the remaining program life. We have a diverse range of skills - skills that have been honed in a very demanding environment. We know that we have knowledge and expertise that can be leveraged in other industry segments to make businesses more efficient and our focus is on seeking out such opportunities to enhance shareholder value.

We thank you for your ongoing support.

"Christopher S. Nutt" [signed]
President and CEO

"Rae E. Wallin" [signed]
Chairman of the Board

This letter to shareholders contains forward-looking statements that involve a number of risks and uncertainties. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are market and general economic conditions and the risk factors detailed from time to time in the Company's periodic reports filed with the Canadian securities regulatory authorities and on SEDAR at www.sedar.com. Readers are cautioned not to rely on forward-looking statements. Specific forward-looking information in this document includes that Ford intends to insource the work currently being performed by Automodular in the fourth quarter of 2014, that Automodular will enter into commercial negotiations with Ford and the CAW once the transition date is known, that Automodular expects the total incremental cost of closing its Oakville facilities and severing its workforce to be \$8.0 million, that we expect the majority of the residual exit costs will be recorded in 2014, that Automodular does not expect that the payment of dividends in accordance with our policy will impair our ability to secure additional contracts or hamper any potential acquisitions, that we are expecting examinations for discovery with respect to the GM litigation to occur at the beginning of 2014, that Automodular expects to generate positive earnings and cash flows over the remaining contract period and that Automodular is continuing to look for opportunities to leverage its core skills by securing contracts organically or through acquisitions. Except as required under continuous disclosure obligations, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Automodular does not provide financial outlooks.

