March 6, 2014

Independent Auditor's Report

To the Shareholders of
Automodular Corporation

We have audited the accompanying consolidated financial statements of Automodular Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Automodular Corporation and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and all information contained in this report were prepared by and are the responsibility of management. The statements were prepared in accordance with accounting principles generally accepted in Canada and include management's best judgments and estimates. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the financial statements.

The Company maintains a system of internal controls which provides management with reasonable assurance that financial information is relevant, reliable and accurate, transactions are property authorized and the Company's assets are properly accounted for and adequately safeguarded.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders. In that capacity, they have examined the consolidated financial statements for the years ended December 31, 2013 and December 31, 2012 and their report, which outlines the scope of their examination and opinion, is included herein.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit Committee. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee. The Audit Committee meets regularly during the year with management and the external auditors to discuss internal control issues, auditing matters and financial reporting issues. The external auditors have free access to the audit committee with and without the presence of management.

"Christopher S. Nutt" [signed]
Chief Executive Officer

"Melinda A. Diebel" [signed]
Chief Financial Officer

Ajax, Ontario
March 6, 2014

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian dollars)	Notes	December 31, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	1, 2 and 8	$ 35,902	$ 24,961
Trade and other receivables	2, 5 and 8	15,032	13,052
Income taxes recoverable	13	789	-
Prepaid expenses		930	1,028
Current assets		52,653	39,041
Investments	2 and 8	-	59
Deferred income taxes	3 and 13	1,088	-
Plant and equipment	3 and 6	4,426	10,322
Other assets	7	198	-
Total assets		**$ 58,365**	**$ 49,422**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Trade payables and accrued liabilities	2, 8 and 16	$ 5,738	$ 6,203
Provisions	2, 3, 9 and 16	8,942	100
Income taxes payable	13	-	1,121
Current liabilities		14,680	7,424
Deferred income taxes	3 and 13	-	653
Provisions	2, 3, 9 and 16	534	463
Other liabilities	7	-	103
Total liabilities		**$ 15,214**	**$ 8,643**
Total shareholders' equity		**$ 43,151**	**$ 40,779**
Total liabilities and shareholders' equity		**$ 58,365**	**$ 49,422**

On behalf of the Board of Directors

[signed] **R. Peter McLaughlin**, Director

[signed] **Christopher S. Nutt**, Director

The accompanying notes are an integral part of these consolidated financial statements

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(thousands of Canadian dollars)	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)[1]	Retained earnings (deficit)	Total
Balance, December 31, 2012		**$ 43,924**	**$ 955**	**$ (21)**	**$ (4,079)**	**$ 40,779**
Net earnings		-	-	-	10,363	**10,363**
Actuarial remeasurement	7	-	-	-	227	**227**
Comprehensive income		-	-	-	10,590	**10,590**
Award of treasury shares	10	250	(250)	-	-	**-**
Shares repurchased for cancellation	10	(1,826)	-	-	320	**(1,506)**
Dividends	10	-	-	-	(6,712)	**(6,712)**
Balance, December 31, 2013		**$ 42,348**	**$ 705**	**$ (21)**	**$ 119**	**$ 43,151**

(thousands of Canadian dollars)	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)[1]	Deficit	Total
Balance, December 31, 2011		**$ 44,162**	**$ 1,005**	**$ 19**	**$ (11,941)**	**$ 33,245**
Net earnings		-	-	-	16,780	**16,780**
Actuarial remeasurement	7	-	-	-	(86)	**(86)**
Realization of gain on investments	2	-	-	(40)	-	**(40)**
Comprehensive income		-	-	(40)	16,694	**16,654**
Award of treasury shares	10	158	(158)	-	-	**-**
Shares repurchased for cancellation	10	(396)	-	-	48	**(348)**
Dividends	10	-	-	-	(8,880)	**(8,880)**
Compensation expense	10	-	108	-	-	**108**
Balance, December 31, 2012		**$ 43,924**	**$ 955**	**$ (21)**	**$ (4,079)**	**$ 40,779**

[1]All items included in Accumulated other comprehensive income (loss) may be subsequently recycled to net earnings, except the actuarial remeasurement.

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(thousands of Canadian dollars, except share and per share amounts)	Notes	For the twelve months ended December 31, 2013	2012
Sales		$ 84,613	$ 115,953
Cost of sales	3 and 17	62,282	89,703
Exit costs	3, 9 and 17	4,272	-
Gross margin		18,059	26,250
General and administrative expense	17	4,775	4,380
Interest (income), net	11	(219)	(100)
Other (income)	12	(150)	(488)
Earnings before income taxes:		13,653	22,458
Current income taxes	13	5,117	6,352
Deferred income taxes	13	(1,827)	(674)
Net earnings attributable to the shareholders		**$ 10,363**	**$ 16,780**
Earnings per share:			
Basic	**10**	**$ 0.52**	**$ 0.83**
Diluted	**10**	**$ 0.52**	**$ 0.82**
Weighted average common shares outstanding:			
Basic	10	19,830,834	20,212,904
Diluted	10	19,830,834	20,347,289

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousands of Canadian dollars)	Notes	For the twelve months ended December 31, 2013	2012
Net earnings		$ 10,363	$ 16,780
Item recycled to net earnings:			
Realization of gain on investments	2	-	(40)
Item that will not be recycled to net earnings:			
Actuarial remeasurement (net of tax $74; 2012 - $28)	7	227	(86)
Total comprehensive income attributable to the shareholders		**$ 10,590**	**$ 16,654**

The accompanying notes are an integral part of these consolidated financial statements

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW

(thousands of Canadian dollars)	Notes	For the twelve months ended December 31, 2013	2012
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net earnings		$ 10,363	$ 16,780
Income taxes (paid)	13	(7,028)	(8,600)
Pension contribution	7	(54)	(54)
Items not involving current cash flows:			
Depreciation	3 and 6	6,376	7,059
Deferred income taxes	3 and 13	(1,827)	(721)
Compensation expense	10	-	108
Interest (income), net	11	(219)	(100)
(Gain) on disposal of investments	2, 8 and 12	(110)	(384)
(Gain) on foreign exchange	12	(39)	(120)
Pension expense	7	54	57
Provisions	2, 9 and 16	8,951	236
Unrealized loss on investments	2, 8 and 12	-	17
(Gain) on disposal of plant and equipment	6 and 12	(1)	(1)
		16,466	14,277
Net change in non-cash working capital:			
Trade and other receivables	2, 5 and 8	(1,980)	1,676
Inventory		-	565
Income taxes payable	13	5,118	6,408
Prepaid expenses		98	269
Trade payables and accrued liabilities	2, 8 and 16	(465)	(2,023)
Provisions	2, 9 and 16	(38)	(51)
Net cash provided by operating activities		19,199	21,121
INVESTING ACTIVITIES			
Proceeds on disposal of investments	2, 8 and 12	169	540
Interest received on cash and cash equivalents	11	229	113
Purchase of plant and equipment	6	(523)	(2,013)
Proceeds on disposal of plant and equipment	6 and 12	44	1
Net cash used by investing activities		(81)	(1,359)
FINANCING ACTIVITIES			
Dividends paid	10	(6,712)	(8,880)
Repurchase of shares under normal course issuer bid	10	(1,506)	(348)
Interest paid	11	(10)	(13)
Repayment of long-term liabilities		-	(340)
Net cash used by financing activities		(8,228)	(9,581)
Effect of exchange rate changes on cash		51	4
CHANGE IN CASH AND CASH EQUIVALENTS		**$ 10,941**	**$ 10,185**
Cash and cash equivalents, beginning of year		**$ 24,961**	**$ 14,776**
Cash and cash equivalents, end of year		**$ 35,902**	**$ 24,961**

The accompanying notes are an integral part of these consolidated financial statements

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

General business description and current operations

Automodular Corporation is a Canadian-based company which is listed on the Toronto Stock Exchange (the "TSX") under the symbol "AM". References to "Automodular" or "the Company" refer to Automodular Corporation and its direct and indirect subsidiaries, as well as its special purpose entity, unless the content indicates otherwise. Automodular was incorporated under the laws of the Province of Ontario and its registered address is 235 Salem Road South, Unit 6, Ajax, Ontario. Automodular is domiciled in Canada.

Automodular is a sequencer and sub-assembler of modules that are installed in equipment assembled by North American Original Equipment Manufacturers ("OEMs") at plants in Canada. Automodular is currently providing these services to the Ford Motor Company ("Ford"). By sequencing, we mean that the Company delivers the sub-assembled modules, such as an instrument panel or a powerpack, 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.

During 2012, Automodular was also engaged in the warehousing and sub-assembly in Ontario of certain wind turbine components for the renewable energy industry.

On May 14, 2013, Ford advised the Company that it intends to insource the sub-assembly and sequencing services currently performed by Automodular for its new program scheduled to commence in 2015. On October 18, 2013, Automodular signed an extension agreement with Ford that extends its existing multi-year agreement with Ford to December 23, 2014. Before the extension, the agreement was set to end on June 30, 2014. Automodular expects to close its two remaining operating facilities located in Oakville, Ontario at the end of the extension. The general framework of the agreement is in keeping with Automodular's existing multi-year agreement. As part of the extension agreement, Ford has provided certain production and price-related assurances and will fund Automodular's incremental closure costs related to this extension. In conjunction with the signing of the agreement with Ford, Automodular finalized a one-year labour extension agreement for its Oakville-area workers with Unifor (formerly the National Automobile, Aerospace, Transportation & General Workers Union of Canada ("CAW")). The existing labour agreement was set to expire on June 30, 2014. This extension provides for a signing bonus and improvements in severance entitlements.

If Automodular is not able to secure new business, either organically or through acquisition, the Company will cease to have active operations when it closes its Oakville facilities.

Basis of preparation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the CPA Canada Handbook ("CPA Handbook"), formerly the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

These consolidated financial statements have been prepared in compliance with IFRS.

These financial statements were approved by the Board of Directors for issue on March 6, 2014. Only the Board of Directors has the right to amend these consolidated financial statements after their issuance.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Principles of consolidation

The consolidated financial statements of Automodular Corporation include the accounts of its wholly owned subsidiaries, Tec-Mar Distribution Services, Inc. and Automodular Assemblies (Ohio) Inc. and its special purpose entity performance share unit plan ("LTIP" or the "Plan"). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries

Subsidiaries, including special purpose entities, are entities over which Automodular Corporation has power, is exposed or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Automodular Corporation owns directly or indirectly 100% of the voting rights in its subsidiaries.

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to Automodular Corporation, and are deconsolidated from the date control ceases.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Executive Officer of the Company.

Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. References to "$" are to Canadian dollars.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity, are recognized in the consolidated statements of operations, except for qualifying cash flow hedges, which are deferred in accumulated other comprehensive income (loss) in shareholders' equity.

Monetary assets and liabilities are translated at the rate of exchange in effect at the consolidated statements of financial position dates. Other assets and liabilities and revenue and expense transactions are translated at the actual rates of exchange in effect at the time of the transaction. Exchange gains and losses are included in other (income) in the consolidated statements of operations.

The financial statements of entities that have a functional currency different from that of Automodular Corporation ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of

the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized through other comprehensive income (loss).

STATEMENT OF FINANCIAL POSITION ITEMS

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Company include cash and cash equivalents, trade and other receivables and investments. The Company's trade and other payables are classified as financial liabilities.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognized when the obligation is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Investments	Available for sale
Trade payables and accrued liabilities	Financial liabilities

Financial assets and financial liabilities are classified as long-term unless they mature or are due less than twelve months from the date of the consolidated statements of financial position, are expected to be settled or realized in the Company's normal operating cycle or are held primarily for trading purposes.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at financial institutions, outstanding deposits and cheques in transit and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value.

Included in cash and cash equivalents is restricted cash of $62 (2012 - $100).

Trade and other receivables
Trade receivables are amounts due from customers from the rendering of services in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment. Trade and other receivables are classified as current assets if payment is due within one year or less.

The Company maintains an allowance for doubtful accounts to provide for impairment of receivables. The Company updates its estimate based on a balance-by-balance evaluation of the collectibility of receivable

balances, taking into account amounts that are past due, the customer's payment history and any available information indicating that a customer could be experiencing liquidity problems.

Investments

Investments consist of equity instruments which have been classified as available for sale. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period.

Regular purchases and sales are recognized on the trade date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. Investments are subsequently carried at fair value. Gains or losses arising from changes in the fair value of investments are recognized in other comprehensive income (loss).

Investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

When the investments are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statements of operations as other (income). The investment is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the investment. The Company considers a significant or prolonged decline in the fair value of an investment below its cost as an objective evidence of impairment.

Dividend income is recognized in the consolidated statements of operations as part of other (income) when the Company's right to receive payments is established.

Trade payables and accrued liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business.

Accrued liabilities include accruals for products or services received by the Company for which no invoice has been received as at the dates on the consolidated statements of financial position.

Trade payables and accrued liabilities are classified as current liabilities if payment is due within twelve months of the end of the reporting period and are recognized initially at fair value then subsequently measured at amortized cost.

Prepaid expenses

Prepaid expenses represent future expenses that have been paid in advance. Prepaid expenses are classified as current assets if the expenses are expected to be recognized within twelve months of the end of the reporting period and are recognized at cost.

Plant and equipment

Plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds the cost of replacing parts of an item of plant and equipment to the carrying amount of that item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is removed. All other repairs and maintenance are included in cost of sales during the period in which they are incurred.

Depreciation on assets is charged so as to allocate the cost of the assets less their residual value over their estimated useful lives, using the diminishing balance method, at effective annual rates as follows:

Leasehold improvements	33% to 54%
Manufacturing equipment	33% to 53%
Automotive equipment	30% to 54%
Other equipment and furniture	25% to 54%

Open capital projects are assets not currently available for use which will be reclassified to their appropriate category upon project completion. Depreciation will commence once these assets have been reclassified and are available for their intended use.

The assets' residual values, useful lives and depreciation methods are reviewed annually, or whenever events and circumstances change, and adjusted prospectively where appropriate. During the second quarter of 2013, following notification from Ford of the insourcing of the Company's current work, the Company completed a review of the useful lives of its plant and equipment. As a result of this review, the Company reduced the estimated useful lives of certain categories of plant and equipment effective July 1, 2013. In the fourth quarter, in connection with the Ford extension agreement, the Company increased the estimated useful lives of certain categories of plant and equipment to extend to the anticipated closing date of the Oakville facilities.

Assets associated with cash generating units ("CGU") will be written down immediately to their recoverable amount if the CGU's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are recognized within other (income) in the consolidated statements of operations.

Other assets (other liabilities)

The Company sponsors a defined benefit pension plan for its former Chief Executive Officer. The net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit actuarial cost method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations and expected mortality. Actual results will differ from results which are estimated based on assumptions. Past service costs arising from plan amendments is recognized immediately in the consolidated statements of operations.

The asset or liability recognized in the consolidated statements of financial position is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars and which have terms to maturity approximating the terms of the related pension liability. All actuarial remeasurements that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets that have been recognized in other comprehensive income (loss) for the period are recognized immediately in retained earnings (deficit). Surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on

the extent to which the Company can unilaterally reduce future contributions to the plan. Any expenses related to the plan are recognized in general and administrative expense.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Capital stock

Capital stock represents amounts paid by shareholders on the issuance of common shares of Automodular Corporation, net of transaction costs. When the company repurchases its own common shares, the share capital is reduced by the average carrying value of the shares purchased. The excess of the purchase price over the average carrying value is recognized as a deduction from Retained Earnings. Shares are cancelled upon purchase.

LTIP

The Company has a performance share unit plan for designated participants of Automodular Corporation and its subsidiaries. For accounting purposes, the Plan is a special purpose entity and is consolidated in the accounts of the Company. The compensation expense for the LTIP is being recorded in general and administrative expense over the vesting period. All shares purchased under the LTIP are deducted from capital stock and the weighted average common shares outstanding for the purposes of earnings per share calculations. The weighted average common shares outstanding calculation is detailed in Note 10**.**

Dividends

Dividend distributions to the Company's shareholders are recognized as a liability on the Company's consolidated statements of financial position in the period in which the dividends are approved by the Company's Board of Directors.

STATEMENT OF OPERATIONS ITEMS

Revenue recognition

Automodular enters into contractual agreements with customers to provide sequencing and sub-assembly services. Although such agreements do not provide for minimum quantities, once the Company enters into such agreements, it is generally required to fulfill its customers' purchasing requirements for the length of the commercial agreement. In general, these agreements may be terminated by its customer for convenience at any time. In certain instances, the Company may be committed under existing agreements to supply services to its customers at selling prices which are not sufficient to cover the direct cost of production. If such situation were to occur, the Company would consider if these meet the definition of an onerous contract.

The Company recognizes revenues based on the pricing terms included in its commercial agreements as the components are ready to be shipped to its customers if the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits is probable; and
- costs incurred and to be incurred can be measured reliably.

Costs of sales
Labour and related costs, materials, transportation and facility-related costs, depreciation and exit costs comprise the majority of these costs.

Decommissioning provisions
The cost of the Company's obligation to rehabilitate its facilities is estimated based on the present value of expected future rehabilitation costs and is recognized in the period in which the obligation is incurred. The present value of these costs is added to the cost of the associated asset and amortized over its useful life, while the corresponding liability will accrete to its future value over the same period.

The present value of the rehabilitation liability is determined based on a discount rate that takes into account the time value of money and the risks specific to the liability. The liability is reviewed at each reporting date to determine if the discount rate is still applicable and to determine if changes are required to the original estimate.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the consolidated statements of operations.

Bonus plans
Liabilities for bonuses are recognized based on a formula that takes into consideration key performance metrics established by management and whether or not these criteria have been met at the reporting date. The Company recognizes an accrual where contractually obliged, or where there is a past practice that has created a constructive obligation to make such compensation payments.

Exit costs
Exit costs represent amounts incurred following the expiry or termination of customer contracts and primarily include employee severance/termination costs and facility-related costs.

Impairments
The carrying values of non-financial assets with finite lives, such as plant and equipment, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Impairments are recorded when the recoverable amount of cash generating unit ("CGU") is less than its carrying amount. The recoverable amount is the higher of a CGU's fair value less cost to sell or its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration. At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through earnings) is impaired.

The criteria used to analyze whether objective evidence of an impairment loss exists include:

- significant financial difficulty of the obligor;
- delinquencies in interest or principal payments; and
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For financial instruments, a significant or prolonged decline in the fair value of the instrument below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Loans and receivables: the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.
- Available-for-sale financial assets: the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of operations. This amount represents the loss in accumulated other comprehensive income (loss) that is reclassified to net earnings. Impairment losses on available-for-sale equity instruments are not reversed.

General and administrative expense

General and administrative expense is predominantly made up of administrative, finance, business development and executive wages and benefits, professional fees and other public company costs.

Interest (income), net

Interest (income), net includes interest expense (income) and other finance costs.

Other (income)

Other (income) includes gains, losses or impairments on investments, foreign exchange and plant and equipment.

Taxation

Income tax expense is composed of current and deferred tax and is recognized in the consolidated statements of operations except to the extent it relates to items recognized on the consolidated statements of shareholders' equity.

<u>Current income tax</u>

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The current tax balance is shown as income taxes recoverable or payable on the consolidated statements of financial position.

<u>Deferred income tax</u>

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts on the consolidated statements of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred taxes are presented on a non-discounted basis and are shown as long-term on the consolidated statements of financial position.

Deferred tax liabilities

- are generally recognized for all taxable temporary differences; and
- are recognized for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and de-recognized to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination, that at the time of the transaction, affects neither accounting nor taxable net earnings. Deferred income tax is provided on the temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net earnings attributable to the shareholders by the weighted average common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is considered the responsibility of the executive management team who identify, evaluate and, if necessary, hedge financial risks.

<u>Market risk</u>

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate, because of changes in market prices. Market risk embodies not only the potential for loss, but also the potential for gain. Market risk reflects price risk, interest rate risk and currency risk.

Price risk
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Prior to March 2013, the Company was exposed to equity instruments price risk due to investments it held. These were classified on the consolidated statements of financial position as available-for-sale financial instruments. The Company's equity investments were in publicly traded equities which are listed on the TSX. In March of 2013, the Company disposed of its remaining non-controlled investments.

Interest rate risk
Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is primarily attributable to its cash and cash equivalents. The Company's objective of managing its cash and cash equivalents is to ensure sufficient funds are maintained and are on hand at all times to meet day-to-day requirements. Any excess cash balances are invested in marketable interest-bearing low-risk investments. These investments include deposits in high yield accounts and bankers' acceptances held at large chartered banks.

Indebtedness issued at variable rates could expose the Company to cash flow interest rate risk. Indebtedness issued at fixed rates could expose the Company to fair value interest rate risk. The Company does not currently have any long-term indebtedness and as such, is not subject to risks associated with related interest rates.

The following table presents a sensitivity analysis to changes in market interest rates and their potential impact on the Company for the year ended December 31, 2013. The effect of market interest rate fluctuations (all other variables held constant) for the year ended December 31, 2013 is as follows:

	+100 bps	**-100 bps**
Increase (decrease) in interest (income), net	190	(190)
Increase (decrease) in earnings before income taxes	**190**	**(190)**

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to currency risk is minimal and is continually monitored and managed.

Credit risk
Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the entity by failing to discharge an obligation.

The Company's financial assets, which are exposed to credit risk, consist primarily of cash and cash equivalents and trade and other receivables.

Credit risks arising from cash and cash equivalents are managed by ensuring that all deposits are held at large chartered banks.

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company adjusts trade and other receivables balances, through an allowance for doubtful accounts, to expected realizable value as soon as an account is determined not to be fully collectible, with such adjustments charged to net earnings. When a receivable is considered uncollectible, it is written off against the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts based on a customer-by-customer evaluation of the collectibility of receivable balances, taking into account amounts that are past due, the customer's payment history and any available information indicating that a customer could be experiencing liquidity problems. As at December 31, 2013, the allowance for doubtful accounts was $nil (2012 - $nil).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities to ensure it has sufficient funds available to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities as at the dates noted:

	Carrying amount $	Less than one year $	One to two years $	After two years $
At December 31, 2013				
Trade payables and accrued liabilities	5,738	5,738	-	-
Provisions	9,476	8,942	534	-
At December 31, 2012				
Trade payables and accrued liabilities	6,203	6,203	-	-
Provisions	563	100	-	463

Capital management

The Company views its capital as the combination of its indebtedness and equity balances. In general, the overall capital of the Company is evaluated and determined in the context of its financial objectives and its strategic plan.

With respect to its level of indebtedness, the Company determines the appropriate level in the context of its cash flows and overall business risks. Generally, the Company has maintained a low level of indebtedness relative to cash flows in order to provide increased financial flexibility. The Company may consider increasing its level of indebtedness relative to cash flows to assist in the financing of new contract awards or other diversification initiatives.

The equity component of capital increases primarily based on the earnings of the Company. Any major new contract awards or diversification initiatives may be financed in part with additional equity.

Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets:				
Investments at December 31, 2012	59	-	-	59

Financial instruments included in Level 1 comprise equity investments listed on the Toronto Stock Exchange ("TSX") which have been classified as available for sale. The fair value of these investments was based on the bid price per the TSX at the date of the consolidated statements of financial position.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The application of the Company's accounting policies requires management to use estimates and judgments that can have a significant effect on the results of operations and the carrying values of assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates and judgments are made; and
- different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates regarding the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately.

The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements.

Depreciation of plant and equipment and impairment of long-lived assets

Due to the significance of plant and equipment on Automodular's consolidated statements of financial position, the Company considers the depreciation policy relating to plant and equipment to be a *"critical accounting estimate"*. Automodular considers the expected life of the assets, expected residual value, and contract length when setting the depreciation rates of its assets. Judgment is involved when establishing these estimates and if circumstances impacting these assumptions and estimates change, there may be a material impact on the consolidated financial statements. The carrying amount of plant and equipment as at December 31, 2013 is $4.4 million. See Note 6 for additional information.

Management assesses long-lived assets for impairment when events and changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company believes that the estimate of impairment for long-lived assets is a *"critical accounting estimate"* because management is required to make significant forward-looking assumptions when events or circumstances indicating impairment arise. In addition, different estimates

that could have been used or changes in estimates from period to period may have a material impact on the Company's consolidated financial statements.

Deferred income tax assets and liabilities

Deferred income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. To the extent that management does not consider it to be probable that a deferred tax asset will be realized, the deferred tax asset will be de-recognized. The Company considers the amount to recognize and de-recognition to be a *"critical accounting estimate"* as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period which may have a material impact on the Company's consolidated financial statements. Factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant changes in events, tax law, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

The net deferred income tax balance on the consolidate statements of financial position is an asset of $1.1 million. See Note 13 for additional information.

Exit costs

Automodular considers exit costs to be a *"critical accounting estimate"* due to the material nature of amounts generally involved and their inherent uncertainty at the time estimates are made. Provisions have been recorded in conjunction with the expiry or termination of production contracts and include estimates primarily related to severance and facility-related costs.

Severance related amounts include severance and benefits payable to hourly and salaried employees. Hourly employee amounts were computed based on the terms of the collective bargaining agreement. Estimates for salaried employees were calculated based on the statutory obligation under the Ontario Employment Standards Act. When the Company finalizes and presents its plan to the affected salaried employees or is required to pay additional amounts to its hourly or salaried employees, changes to the estimated obligation could be material to the consolidated financial statements.

Facility costs projections are based on the terms of the relevant lease agreements.
Within the consolidated statements of operations, exit costs are shown net of expected reimbursements from Ford for certain incremental closure costs. These reimbursements have been calculated based on the specific terms of the commercial extension agreement with Ford.

As actual costs may vary from these estimates, they are reviewed on a quarterly basis and changes recognized through net earnings as required. See Note 9 for additional information.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1, *Presentation of Financial Statements*

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments require the Company to group other comprehensive income (loss) items by those that will be reclassified subsequently to net earnings and those that will not be reclassified. Further, the Company must evaluate the comparative period to determine whether reclassifications of other comprehensive income (loss) items were required. This change resulted in the Company classifying its remeasurements of the defined benefit plan as an item that will not subsequently be recycled to net earnings.

IFRS 10, *Consolidated Financial Statements*

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries or its special purpose entity.

IAS 19, *Employee Benefits*

The Company's amended policy requires immediate recognition of actuarial remeasurements in other comprehensive income (loss) as they arise, without subsequent recycling to the consolidated statement of operations. Past-service cost (which will now include curtailment gains and losses) is no longer recognized over a service period but instead is recognized immediately in the period of a plan amendment. Pension benefit cost is split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component is calculated based on the net defined benefit asset or liability. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the interest component) and any changes in the asset ceiling are recognized in other comprehensive income (loss). The Company continues to immediately recognize in retained earnings (deficit) all pension adjustments recognized in other comprehensive income (loss). The Company has determined no material adjustments were required in these consolidated financial statements as a result of adopting this revised standard. The Company has revised the presentation of its note disclosure of employee benefits to comply with the revised standard.

IFRS 13, *Fair Value Measurement*

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of this standard did not have a material impact on the Company's financial statements.

New standards and interpretations not yet adopted

New standards and amendments to standards and interpretations that are effective for annual periods beginning after January 1, 2014 have not been applied in preparing these consolidated financial statements. Not all new standards are applicable to the Company. The anticipated impact of the new and amended standard which is applicable to the Company is discussed below:

International Financial Reporting Standard 9, *Financial Instruments*

IFRS 9, *Financial Instruments,* will replace the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and will be completed and implemented in three separate phases, which includes classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. Accounting for macro hedging will be issued as a separate standard. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date. The IASB also tentatively decided at its November 2013 meeting that

the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2017. The Company continues to monitor all of these developments and assess the impact.

5. TRADE AND OTHER RECEIVABLES

The Company adjusts receivable balances, through an allowance for doubtful accounts, to expected realizable value. The allowance for doubtful accounts as at December 31, 2013 was $nil (2012 - $nil).

The aging of trade and other receivables (net of allowance for doubtful accounts) was as follows:

	December 31, 2013	December 31, 2012
	$	$
Current	15,012	12,852
Past due zero to thirty days	20	16
Over thirty days past due	-	184
Total	**15,032**	**13,052**

Included in the current amount above is $4,718 related to expected recoveries for certain incremental exit costs. See Note 9 for additional information on this balance.

6. PLANT AND EQUIPMENT

Plant and equipment consist of the following:

	Leasehold improvements	Manufacturing equipment	Automotive equipment	Other equipment and furniture	Open capital projects	Total
	$	$	$	$	$	$
Cost:						
January 1, 2012	2,012	29,467	225	5,509	1,053	38,266
Additions	178	2,089	37	640	(931)	2,013
Disposals	(134)	(1,612)	-	(1,099)	-	(2,845)
December 31, 2012	2,056	29,944	262	5,050	122	37,434
Additions	9	251	-	385	(122)	523
Disposals	-	(43)	-	-	-	(43)
December 31, 2013	**2,065**	**30,152**	**262**	**5,435**	**-**	**37,914**
Accumulated depreciation:						
January 1, 2012	1,206	18,344	131	3,217	-	22,898
Depreciation	467	5,249	62	1,281	-	7,059
Disposals	(134)	(1,612)	-	(1,099)	-	(2,845)
December 31, 2012	1,539	21,981	193	3,399	-	27,112
Depreciation	204	5,244	30	898	-	6,376
December 31, 2013	**1,743**	**27,225**	**223**	**4,297**	**-**	**33,488**
Carrying amount:						
December 31, 2012	**517**	**7,963**	**69**	**1,651**	**122**	**10,322**
December 31, 2013	**322**	**2,927**	**39**	**1,138**	**-**	**4,426**

Proceeds on disposals are netted against the related assets' cost and accumulated depreciation and included in other (income) on the consolidated statements of operations.

7. OTHER ASSETS (OTHER LIABILITIES)

The Company has a defined benefit pension plan for a former Chief Executive Officer. The pension plan provides benefits in the form of a guaranteed level of pension payable for life, with 50% of the guaranteed level payable to his surviving spouse. This pension plan is not indexed. The benefit payments are from trustee-administered funds. Pension plan assets held in trust are governed by local regulations. Responsibility for the governance of the pension plan and overseeing all aspects of it, including investment decisions and contribution schedules - lies with the Company. The Company has appointed experienced, independent professional experts such as investment managers, actuaries, custodians and trustees.

The pension plan is valued by independently qualified actuaries using the projected unit credit method. The Company obtains a report as at December 31 of each year and as such, updates the detailed information in its annual report. The Company expenses an amount based on the amount calculated by the actuary using assumptions as described below. The expense was $54 (2012 - $57). Included in other comprehensive income (loss) for the current year is $227 related to unrealized actuarial gains net of taxes (2012 - $86 unrealized actuarial losses net of taxes).

The amounts recognized in the consolidated statements of financial position with respect to the defined benefit plan are as follows:

	December 31, 2013	**December 31, 2012**
	$	**$**
Accrued benefit obligation	2,706	2,889
Fair value of plan assets	2,904	2,786
Net accrued benefit asset (obligation)	**198**	**(103)**

The movement in the accrued benefit obligation is as follows:

	2013	**2012**
	$	**$**
At January 1	2,889	2,787
Interest cost	54	57
Return on plan assets	52	58
Actuarial loss – economic – discount rate	(249)	-
Actuarial gain – demographic	122	165
Actuarial gain – experience adjustment	16	-
Benefit payments	(178)	(178)
At December 31	**2,706**	**2,889**

The movement in the fair value of plan assets in the year is as follows:

	2013 $	2012 $
At January 1	2,786	2,801
Actual return on plan assets	242	109
Employer contributions	54	54
Benefit payments	(178)	(178)
At December 31	**2,904**	**2,786**

The amounts recognized in the consolidated statements of operations are as follows:

	2013 $	2012 $
Pension expense, included in general and administrative expenses	**54**	**57**

Risk Management

The Company's pension plan is exposed to various risks, including equity, interest rate and longevity risks. The following is a description of key risks together with the mitigation measures in place to address them:

Equity risk

Equity risk is the risk that results from fluctuations in equity prices. The pension plan holds a significant proportion of equities, which are expected to outperform fixed income investments in the long-term while contributing volatility and risk in the short-term.

The Company believes that due to the long-term nature of the pension plan, a level of continuing equity investment is an appropriate element of the Company's long-term strategy to manage the pension plan efficiently. This risk is managed by maintaining diversification of portfolios across geographies and investment strategies.

Interest rate risk

Interest rate risk is the risk that results from fluctuations in the fair value of pension plan asset and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of pension plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term fixed income investments.

Longevity risk

Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. The pension plan`s obligations are to provide benefits for the life of the member, and at a rate of 50% to a surviving spouse. This risk is mitigated by using the most recent mortality tables to set the level of contributions.

As part of its overall risk management strategy, the Company ensures that the investment positions are managed within an asset/liability matching ("ALM") framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plan. Within this framework, the Company's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Company monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Company has not changed the processes used to manage its risks from previous periods. The Company does not use derivatives to manage its risk. Investments are well diversified, such that the failure of

any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2013 consists of equities and fixed income investments. The pension plan is not exposed to significant foreign currency risk.

The sensitivity of the net accrued benefit assets (obligation) to changes in the discount rate assumption is as follows:

	+50 bps	**-50 bps**
Effect on the net accrued benefit asset (obligation)	140	(155)

This sensitivity analysis was based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the net accrued benefit asset (obligation) to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit actuarial cost method at the end of the reporting period) has been applied as for calculating the asset recognized in the consolidated statements of financial position.

Based on the actuarial valuation completed as of January 1, 2014, funding contributions are expected to be $53 for 2014. The next triennial valuation for the Plan is due to be completed as at January 1, 2017.

Based on expected maturity, the Company expects the Plan make the following benefit payments:

	December 31, 2013
	$
Within one year	177
Between one and five years	694
Over five years	4,106
Total	**4,977**

The principal actuarial assumptions were as follows:

	2013	**2012**
Discount rate	4.6%	3.8%
Assumed rate of salary escalation	n/a	n/a
Assumed rate of pension increases	n/a	n/a

Plan assets are composed of:

	December 31, 2013	**December 31, 2012**
Fixed income	38%	40%
Canadian equity	51%	50%
US equity	6%	5%
International equity	5%	5%

8. FINANCIAL INSTRUMENTS BY CATEGORY

The following table summarizes the Company's financial instruments by category:

At December 31, 2013:

	Loans and receivables $	Total $
Assets		
Cash and cash equivalents	35,902	35,902
Trade and other receivables	15,032	15,032
Total	**50,934**	**50,934**

	Financial liabilities at amortized cost $	Total $
Liabilities		
Trade payables and accrued liabilities	5,738	5,738
Total	**5,738**	**5,738**

At December 31, 2012:

	Loans and receivables $	Available for sale $	Total $
Assets			
Cash and cash equivalents	24,961	-	24,961
Trade and other receivables	13,052	-	13,052
Investments	-	59	59
Total	**38,013**	**59**	**38,072**

	Financial liabilities at amortized cost $	Total $
Liabilities		
Trade payables and accrued liabilities	6,203	6,203
Total	**6,203**	**6,203**

The carrying value of cash and cash equivalents, trade and other receivables and trade payables and accrued liabilities approximates their fair values due to the short-term nature of their maturities.

9. CONTRACT UPDATE, PROVISIONS AND EXIT COSTS

Contract update

On May 14, 2013, the Company was advised by Ford that it intends to insource the sub-assembly and sequencing services currently performed by Automodular for its new program scheduled to commence in 2015. On October 18, 2013, Automodular signed an extension agreement with Ford that extends its existing multi-year agreement with Ford to December 23, 2014. Before the extension, the agreement was set to end on June 30, 2014. Automodular expects to close its two remaining operating facilities located in Oakville, Ontario at the end of the

extension. The general framework of the agreement is in keeping with Automodular's existing multi-year agreement. As part of the extension agreement, Ford has provided certain production and price-related assurances and will fund Automodular's incremental closure costs related to this extension.

Provisions

	Exit costs	Decommissioning	Other	Total
	$	$	$	$
Balance, January 1, 2012	**151**	**227**	**-**	**378**
Plus: additions to the provision	-	236	-	236
Less: amounts paid	(51)	-	-	(51)
Balance, December 31, 2012	**100**	**463**	**-**	**563**
Current provisions	100	-	-	100
Non-current provisions	-	463	-	463
Balance, December 31, 2012	**100**	**463**	**-**	**563**
Balance, January 1, 2013	**100**	**463**	**-**	**563**
Plus: additions to the provision	8,699	71	600	9,370
Less: amounts paid	(457)	-	-	(457)
Balance, December 31, 2013	**8,342**	**534**	**600**	**9,476**
Current provisions	8,342	-	600	8,942
Non-current provisions	-	534	-	534
Balance, December 31, 2013	**8,342**	**534**	**600**	**9,476**

Exit cost provisions

In the second quarter, following the Ford announcement, Automodular recorded exit costs of $4,000 related to the anticipated end of the Ford multi-year contract. This amount reflected the Company's severance obligation to its hourly workforce under the Collective Agreement in place at that time and the Company's statutory severance obligation to its salaried workforce.

During the fourth quarter, in conjunction with the Ford commercial extension, Automodular also finalized an agreement on a one-year labour extension agreement for its Oakville-area workers with Unifor. The existing labour agreement was set to expire on June 30, 2014. The extension provides for certain signing bonuses and improvements in severance entitlements to the hourly workforce. Automodular recorded an additional provision of $4,699 related to incremental severance amounts required under the Unifor extension agreement and minor adjustments to salaried severance entitlements.

Automodular expects to record additional severance costs relating to the closure when it determines and presents its formal communication plan to its affected salaried employees, which is currently expected to occur in 2014.

The Company expects to record facility and other related closure costs at the time they are incurred or at the time the facility is closed depending on their nature. It is expected that the majority of these costs will be recorded in 2014.

Automodular will continue to re-examine estimates on a quarterly basis and revise as necessary.

Decommissioning provisions

Decommissioning provisions are accrued in recognition of the Company's obligations to restore its facilities as required under existing lease agreements.

Other provisions

Included in other provisions are certain other costs which Automodular expects to incur with respect to its salaried employees. These costs are integral to serving out the remaining term of the Ford contract.

Reimbursement of costs

Due to the signing of the Ford contract extension, Automodular expects to be reimbursed for certain incremental closure costs as defined in the agreement. Accordingly, certain exit costs have been included in the consolidated statements of operations net of the anticipated recoveries from Ford.

Plant and equipment impairment

Following Ford's announcement, Automodular reviewed the carrying value of its plant and equipment taking into account expected future cash flows and expected proceeds on sale or alternate use upon contract termination. The Company concluded that no impairment existed, and accordingly, no impairment has been recorded.

10. CAPITAL STOCK

Authorized:

Unlimited number of common shares (no par value).

	Number of shares	Amount $
Issued and outstanding common shares – January 1, 2012	**20,174,530**	**44,162**
Award of treasury shares	84,764	158
Shares cancelled through normal course issuer bid	(180,830)	(396)
Issued and outstanding common shares - December 31, 2012	**20,078,464**	**43,924**
Award of treasury shares	134,384	250
Shares cancelled through normal course issuer bid	(833,945)	(1,826)
Issued and outstanding common shares - December 31, 2013	**19,378,903**	**42,348**

The above figures represent the net shares outstanding exclusive of the one treasury share held in the long-term incentive plan.

Normal course issuer bid

In July 2012**,** Automodular's Board of Directors approved a normal course issuer bid (the "Bid" or "NCIB"). Under the terms of the Bid, Automodular could acquire up to 1,317,000 common shares, which represented 10% of the public float of Automodular's common shares issued and outstanding as of August 1, 2012, as defined by the policies of the TSX. The Bid period ran from August 8, 2012 until August 7, 2013.

On August 15, 2013, Automodular announced that the TSX had accepted the Company`s notice of intention to renew its normal course issuer bid. Under the terms of the Bid, Automodular may acquire up to 1,552,790

common shares, representing 10% of the public float of Automodular's common shares issued and outstanding as of August 12, 2013, as defined by the policies of the TSX. The normal course issuer bid commenced on August 19, 2013 and will terminate on August 18, 2014, or on such earlier date as Automodular completes its purchases. During 2012, Automodular repurchased for cancellation 180,830 shares, with a carrying value of $396, for a total cost of $348. During 2013, Automodular repurchased for cancellation 833,945 shares, with a carrying value of $1,826, for a total cost of $1,506.

There were no new common shares issued in 2013 or 2012.

Options

Under the Company's stock purchase plan, the Board of Directors is entitled to grant to designated directors, officers and employees of the Company or any subsidiary thereof, the right to purchase unissued common shares of the Company. Any options granted under this plan would be issued at a price not less than the fair value of the shares on the date of the grant.

No options were granted or outstanding during 2013 or 2012.

Long-term incentive plan

On May 10, 2007, the Board of Directors approved the adoption of a performance share unit plan for designated participants in order to further align the interests of its senior executives and its shareholders and encourage retention of key executives. Automodular contributed funds to a trustee for the purchase of Automodular shares in secondary markets. Upon meeting annual performance targets, designated senior executives became entitled to receive the Automodular shares previously held in trust, subject to the vesting requirements under the Plan.

Automodular made an initial contribution of $500 to the Plan in 2007, in connection with awards under the Plan that vested on or about December 31, 2010. The entire allotment of shares was purchased by the Plan on the open market during the third quarter of 2007. A total of 198,504 shares were purchased for aggregate consideration of $500 and was shown as a reduction of capital stock.

On August 12, 2008, the Board of Directors approved an additional contribution of $500 to the Plan. During the third quarter of 2008, a total of 339,049 shares with a cost of $500 were purchased by the Plan on the open market. This amount has been shown as a reduction of capital stock.

The Board of Directors confirmed the relevant performance metrics as established by them for each of the following years were achieved, and accordingly the share units vested and were subsequently distributed to the participants of the Plan as follows:

Date of vesting	Number of shares vested and distributed	Number of shares remaining in Plan
Opening balance, December 31, 2008		537,553
November 30, 2010	49,624	487,929
December 31, 2010	99,256	388,673
December 31, 2011	254,288	134,385
December 31, 2012	134,384	1

As noted above, as at December 31, 2013 the Plan holds one share and the Board of Directors is considering winding down the Plan.

In the year ended December 31, 2013, compensation expense of $nil (2012 - $108) was recognized for awards under this Plan in general and administrative expense with a corresponding credit to contributed surplus.

Dividends

In the years ended December 31, 2013 and 2012, dividends totalling $6,717 and $8,939, respectively, were declared and paid. Dividends have been reflected net of $5 and $59, respectively, of internal dividends. Total dividends paid during the year were $0.34 per share (2012 - $0.44 per share).

On January 16, 2014, the Company declared a regular quarterly dividend of $0.06 per share to shareholders of record on February 3, 2014, paid on March 3, 2014.

Weighted average common shares outstanding

	2013	**2012**
Weighted average issued common shares	20,212,849	20,393,679
Less: Weighted average shares cancelled under the NCIB	(368,023)	(39,673)
Less: Weighted average LTIP treasury shares	(13,992)	(141,102)
Weighted average common shares outstanding – basic	**19,830,834**	**20,212,904**
Effect of dilutive securities:		
LTIP shares: Performance metrics met; not vested	-	134,385
Weighted average common shares outstanding – fully diluted	**19,830,834**	**20,347,289**

11. INTEREST (INCOME), NET

The components of interest (income), net, include interest expense and interest (income) as follows:

	2013 **$**	**2012** **$**
Interest expense on long-term and other liabilities	10	13
Less: Interest income on cash and cash equivalents	(229)	(113)
Interest (income), net	**(219)**	**(100)**

12. OTHER (INCOME)

The components of other (income) include the following:

	2013 **$**	**2012** **$**
(Gain) on disposal of plant and equipment	(1)	(1)
(Gain) on disposals of investments	(110)	(384)
Unrealized loss on investments	-	17
(Gain) on foreign exchange	(39)	(120)
Other (income)	**(150)**	**(488)**

13. TAXATION

	2013 $	2012 $
Current income taxes:		
Current income taxes on earnings for the year	5,266	6,428
Adjustments in respect of prior years	(149)	(76)
Total current income taxes	**5,117**	**6,352**
Deferred income taxes:		
Origination and reversal of temporary differences	(1,827)	(674)
Total deferred income taxes	**(1,827)**	**(674)**
Income tax expense	**3,290**	**5,678**

The income taxes on the Company's earnings before income taxes differs from the theoretical amount that would arise using the weighted average income tax rate applicable to earnings of the consolidated entities as follows:

	2013 $	2012 $
Earnings before income tax:	**13,653**	**22,458**
Expected income tax expense at statutory rates	3,413	5,615
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	39	(48)
Other	(162)	111
Income tax expense	**3,290**	**5,678**

	December 31, 2013 $	December 31, 2012 $
Deferred income tax assets:		
Deferred income tax assets to be realized after more than twelve months	193	240
Deferred income tax assets to be realized within twelve months	2,275	207
Total deferred income tax assets	**2,468**	**447**
Deferred income tax liabilities:		
Deferred income tax liabilities to be realized after more than twelve months	75	1,100
Deferred income tax liabilities to be realized within twelve months	1,305	-
Total deferred income tax liabilities	**1,380**	**1,100**
Deferred income tax assets (liabilities), net	**1,088**	**(653)**

The Company also has unrecognized Canadian capital losses of $17.1 million available to be offset against future capital gains as follows:

	December 31, 2013
	$
Net capital losses	17,190
Realized (gain) on investments	(110)
Total	**17,080**

No deferred income tax assets have been recognized in relation to these losses in the consolidated statements of financial position.

As at December 31, 2013, the Company has net operating loss carry-forwards in the US of US$8,216 that are scheduled to expire as follows:

Year	**US$**
2024	867
2025	853
2026	-
2027	1,888
2028	4,144
2029	218
2030	188
2031	58
Total US net operating loss carry-forwards	**8,216**

The Company assessed whether it should continue to de-recognize the related US deferred income tax assets based on the consideration of all available evidence using a probability threshold, which is generally understood to be greater than 50%. The factors the Company used to assess the probability of realization were its forecast of future US taxable income and available tax planning strategies that could be implemented to realize the deferred income tax assets. The Company determined that as a result of the prior expiration of certain US contracts, the deferred income tax assets should continue to be de-recognized. Accordingly, as at December 31, 2013 and 2012, the Company has no deferred income tax assets recognized in the consolidated statements of financial position related to these losses.

14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management personnel compensation and benefits, including the Company's directors and members of its executive management team, are as follows:

	2013	**2012**
	$	**$**
Salaries, directors' fees and short-term employee benefits	2,096	2,262
Consulting fees	-	120
Post-employment benefits	15	60
Share-based payments	-	273
Total	**2,111**	**2,715**

In January, 2012, the Company entered into a consulting contract with a company controlled by a former director. The contract was for a fixed rate of $15 per month and could be terminated by either party with 30 days advanced written notice. The contract was terminated by the related party during the third quarter of 2012.

15. SEGMENT INFORMATION

The Chief Executive Officer ("CEO") is the Company's chief operating decision-maker. The Company has determined the operating segments based on the information reviewed by the CEO for the purposes of allocating resources and assessing performance. Two identified operating segments have been aggregated into one reportable segment.

The CEO considers the business from a products serviced perspective to include all sub-assembly services and other services. A geographic perspective is not considered as currently all operations reside in southern Ontario.

The CEO assesses the performance of the operating segments based on net earnings and a measure of EBITDA. The measure of EBITDA has been defined as earnings from operations before interest, income tax expense and depreciation. The measure also excludes the effects of gains, losses or impairments on investments, foreign exchange and plant and equipment.

Sales and net earnings

				December 31, 2013
	Sales	**Depreciation**	**Income tax expense**	**Net earnings (loss)**
	$	**$**	**$**	**$**
Sub-assembly	84,613	6,271	3,396	10,704
All other segments	-	105	(106)	(341)
Total	**84,613**	**6,376**	**3,290**	**10,363**

				December 31, 2012
	Sales	Depreciation	Income tax expense	Net earnings
	$	$	$	$
Sub-assembly	115,953	6,931	5,683	16,477
All other segments	-	128	(5)	303
Total	**115,953**	**7,059**	**5,678**	**16,780**

There are no sales between segments. All sales disclosed are generated by services performed for external parties and are reported to the CEO in a manner consistent with that in the consolidated statements of operations.

Major customers

The sub-assembly segment above includes one customer in 2013 and two customers in 2012 whose sales exceed 10% of Automodular's total sales. Sales under the Company's largest contract for the years ended December 31, 2013 and 2012 were $84,613 and $86,638, respectively. Sales from the Company's other major customer for the years ended December 31, 2013 and 2012, were $nil and $29,315, respectively.

Assets

	December 31, 2013	December 31, 2012
	$	$
Sub-assembly	52,303	45,473
All other segments	3,987	3,890
Total segment assets	**56,290**	**49,363**
Other:		
Investments	-	59
Income taxes recoverable	789	-
Deferred income taxes	1,088	-
Other assets	198	-
Total assets per consolidated statements of financial position	**58,365**	**49,422**

The amounts provided to the CEO with respect to total assets are measured in a manner consistent with that of the consolidated statements of financial position. These assets are allocated based on the operations of the segment and the physical location of the asset.

Investments in shares (classified as available for sale financial assets or financial assets at fair value through profit and loss) which were held by the Company were not considered to be segment assets but rather are managed by the CEO.

Liabilities

	December 31, 2013	December 31, 2012
	$	$
Sub-assembly	14,136	5,483
All other segments	1,078	1,283
Total segment liabilities	**15,214**	**6,766**
Other:		
Income taxes payable	-	1,121
Deferred income taxes	-	653
Other liabilities	-	103
Total liabilities per consolidated statements of financial position	**15,214**	**8,643**

The amounts provided to the CEO with respect to total liabilities are measured in a manner consistent with that of the consolidated statements of financial position. These liabilities are allocated based on the operations of the segment.

16. CONTINGENCIES AND COMMITMENTS

General

In the ordinary course of business activities, the Company is a party to certain claims. Management believes that the resolution of such claims will not have a material adverse effect on the consolidated financial position of the Company.

Trade payables and accrued liabilities and provisions

The following are the undiscounted contractual maturities of trade payables and accrued liabilities and provisions as at December 31, 2013:

	Total	Less than 1 year	1 to 2 years	After 2 years
	$	$	$	$
Trade payables and accrued liabilities	5,738	5,738	-	-
Provisions	9,476	8,942	534	-
	15,214	**14,680**	**534**	**-**

Operating leases

All of the Company's facilities are subject to operating leases. The Company also has certain operating lease commitments for equipment. Future operating lease commitments are shown below. Substantially all of the operating lease commitments relate to facility rentals. Commitments include US and CDN amounts and are denominated in the table below in Canadian dollars.

Less than one year	$ 3,014
Between one and five years	4,524
Total	**$ 7,538**

17. EXPENSES BY NATURE

	2013 $	2012 $
Wages and employee benefits	44,156	45,511
Materials	-	22,698
Transportation and facility-related costs	9,229	9,228
Other	7,296	9,587
Depreciation	6,376	7,059
Exit costs	4,272	-
Total cost of sales, exit costs and general and administrative expenses	**71,329**	**94,083**