

# Automodular Corporation

## Interim Consolidated Financial Statements

For the nine months ended September 30, 2014 and 2013

Unaudited

All numbers in thousands, except share and per share data

### \* Notice of Disclosure of Non-Auditor Review of Interim Financial Statements

Pursuant to Ontario Securities Act National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Automodular Corporation "the Company" for the interim periods ended September 30, 2014 and 2013 have been prepared in accordance with IAS 34, *Interim Financial Reporting* and are the responsibility of the Company's management.

The Company's independent auditors, PricewaterhouseCoopers, LLP, have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

November 6, 2014

**AUTOMODULAR CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(unaudited)*

<i>(thousands of Canadian dollars)</i>	<b>Notes</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>			
Cash and cash equivalents	6	\$ 43,806	\$ 35,902
Trade and other receivables	3 and 6	20,914	15,032
Income taxes recoverable	11	-	789
Prepaid expenses		1,034	930
<b>Current assets</b>		<b>65,754</b>	<b>52,653</b>
Deferred income taxes	11	2,169	1,088
Plant and equipment	4	1,237	4,426
Other assets	5	210	198
<b>Total assets</b>		<b>\$ 69,370</b>	<b>\$ 58,365</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Trade payables and accrued liabilities	6 and 13	\$ 6,862	\$ 5,738
Provisions	7 and 13	12,535	8,942
Income taxes payable	11	1,807	-
<b>Current liabilities</b>		<b>21,204</b>	<b>14,680</b>
Provisions	7 and 13	-	534
<b>Total liabilities</b>		<b>\$ 21,204</b>	<b>\$ 15,214</b>
<b>Total shareholders' equity</b>		<b>\$ 48,166</b>	<b>\$ 43,151</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 69,370</b>	<b>\$ 58,365</b>

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

**AUTOMODULAR CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
*(unaudited)*

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss) <sup>1</sup>	Retained earnings	Total
<b>Balance, December 31, 2013</b>		<b>\$ 42,348</b>	<b>\$ 705</b>	<b>\$ (21)</b>	<b>\$ 119</b>	<b>\$ 43,151</b>
Net earnings		-	-		8,457	8,457
Foreign currency translation		-	-	25	-	25
Stated capital reduction	8	(19,379)	19,379	-	-	-
Other comprehensive loss recycled to net earnings	10	-	-	21	-	21
<b>Comprehensive income</b>		-	-	46	8,457	<b>8,503</b>
Dividends	8	-	-	-	(3,488)	<b>(3,488)</b>
<b>Balance, September 30, 2014</b>		<b>\$ 22,969</b>	<b>\$ 20,084</b>	<b>\$ 25</b>	<b>\$ 5,088</b>	<b>\$ 48,166</b>

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss) <sup>1</sup>	Deficit	Total
<b>Balance, December 31, 2012</b>		<b>\$ 43,924</b>	<b>\$ 955</b>	<b>\$ (21)</b>	<b>\$ (4,079)</b>	<b>\$ 40,779</b>
Net earnings		-	-	-	6,880	6,880
<b>Comprehensive income</b>		-	-	-	6,880	<b>6,880</b>
Award of treasury shares	8	250	(250)	-	-	-
Shares repurchased for cancellation	8	(1,783)	-	-	319	<b>(1,464)</b>
Dividends	8	-	-	-	(3,608)	<b>(3,608)</b>
<b>Balance, September 30, 2013</b>		<b>\$ 42,391</b>	<b>\$ 705</b>	<b>\$ (21)</b>	<b>\$ (488)</b>	<b>\$ 42,587</b>

<sup>1</sup>All items included in accumulated other comprehensive income (loss), except the actuarial remeasurement, may be subsequently recycled to net earnings.

**AUTOMODULAR CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(unaudited)*

<i>(thousands of Canadian dollars, except share and per share amounts)</i>	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2014	2013	2014	2013
Sales		\$ 21,294	\$ 20,213	\$ 59,615	\$ 63,960
Cost of sales	14	13,997	15,782	42,053	47,455
Exit costs	7 and 14	1,139	-	2,418	4,000
<b>Gross margin</b>		<b>6,158</b>	<b>4,431</b>	<b>15,144</b>	<b>12,505</b>
General and administrative expense	12 and 14	1,231	1,084	3,987	3,407
Interest (income), net	9	(106)	(48)	(285)	(147)
Other expense (income)	10	(6)	13	14	(138)
<b>Earnings before income taxes:</b>		<b>5,039</b>	<b>3,382</b>	<b>11,428</b>	<b>9,383</b>
Current income taxes	11	1,899	1,273	4,052	3,152
Deferred income taxes	11	(586)	(360)	(1,081)	(649)
<b>Net earnings attributable to the shareholders</b>		<b>\$ 3,726</b>	<b>\$ 2,469</b>	<b>\$ 8,457</b>	<b>\$ 6,880</b>
<b>Earnings per shares:</b>					
Basic	8	\$ 0.19	\$ 0.12	\$ 0.44	\$ 0.34
Diluted	8	\$ 0.19	\$ 0.12	\$ 0.44	\$ 0.34
<b>Weighted average common shares outstanding</b>					
Basic	8	19,378,903	20,024,045	19,378,903	19,975,618
Diluted	8	19,378,903	20,024,045	19,378,903	19,975,618

**AUTOMODULAR CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(unaudited)*

<i>(thousands of Canadian dollars)</i>	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2014	2013	2014	2013
Net earnings		\$ 3,726	\$ 2,469	\$ 8,457	\$ 6,880
<b>Items recycled to net earnings:</b>					
Other comprehensive loss recycled to net earnings	10	-	-	21	-
Foreign currency translation		(3)	-	25	-
<b>Total comprehensive income attributable to the shareholders</b>		<b>\$ 3,723</b>	<b>\$ 2,469</b>	<b>\$ 8,503</b>	<b>\$ 6,880</b>

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

**AUTOMODULAR CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW**  
*(unaudited)*

<i>(thousands of Canadian dollars)</i>	Notes	For the nine months ended September 30,	
		2014	2013
<b>CASH PROVIDED BY (USED IN)</b>			
<b>OPERATING ACTIVITIES</b>			
Net earnings		\$ 8,457	\$ 6,880
Income taxes (paid)	11	(1,456)	(3,800)
Pension contribution	5	(53)	(54)
Provisions	7 and 13	(1,298)	(38)
<b>Items not involving current cash flows:</b>			
Depreciation	4	3,236	5,276
Deferred income taxes	11	(1,081)	(649)
Interest (income)	9	(285)	(147)
(Gain) on disposal of investments	10	-	(110)
Other comprehensive loss recycled to net earnings	10	21	-
(Gain) on foreign exchange	10	(7)	(28)
Pension expense	5	41	53
Provisions	0	4,357	4,589
		11,932	11,972
<b>Net change in non-cash working capital:</b>			
Trade and other receivables	3 and 6	(5,882)	629
Income taxes	11	4,052	3,228
Prepaid expenses		(104)	(169)
Trade payables and accrued liabilities	6 and 13	1,124	(601)
<b>Net cash provided by operating activities</b>		<b>11,122</b>	<b>15,059</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds on disposal of investments	10	-	168
Interest received on cash and cash equivalents	9	285	147
Purchase of plant and equipment	4	(47)	(493)
Proceeds on disposal of plant and equipment	4	-	44
<b>Net cash provided (used) by investing activities</b>		<b>238</b>	<b>(134)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends	8	(3,488)	(3,608)
Repurchase of shares in Normal Course issuer bid	8	-	(1,464)
<b>Net cash used by financing activities</b>		<b>(3,488)</b>	<b>(5,072)</b>
<b>Effect of exchange rate changes on cash</b>		<b>32</b>	<b>29</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>\$ 7,904</b>	<b>\$ 9,882</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>\$ 35,902</b>	<b>\$ 24,961</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 43,806</b>	<b>\$ 34,843</b>

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS AT SEPTEMBER 30, 2014 and 2013  
(unaudited)**

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

**1. SUMMARY OF BUSINESS AND BASIS OF PREPARATION**

**General business description and current operations**

Automodular Corporation is a Canadian 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 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.

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. The general framework of the agreement is in keeping with Automodular's existing multi-year agreement which was set to end on June 30, 2014. Automodular expects to close its Oakville operating facilities at the end of the extension. 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 also set to expire on June 30, 2014 and this extension provides for a signing bonus and improvements in severance entitlements.

Automodular's initiatives on the diversification front continue. Both management and the Board of Directors are actively engaged in finding opportunities to leverage our expertise to enhance shareholder value. 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 during the first quarter of 2015.

**Basis of preparation**

The accounting policies followed in these interim consolidated financial statements are consistent with those of the previous financial year and are in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), has been omitted or condensed. The preparation of financial statements in accordance with IAS 34 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 financial statements, have been set out in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2013. Key assumptions and estimates concerning exit costs, have been further outlined in Note 7 of these interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, which are included in the Company's 2013 annual report.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS AT SEPTEMBER 30, 2014 and 2013  
(unaudited)**

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

The accompanying interim consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. References to "\$" are to Canadian dollars.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

The accounting policies followed in these interim consolidated financial statements are consistent with those of the previous financial year.

**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, 2015 have not been applied in preparing these interim consolidated financial statements. Not all new standards are applicable to the Company. The anticipated impact of the new and amended standards which are applicable to the Company are discussed below:

International Financial Reporting Standard 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

International Financial Reporting Standard 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers*, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2017 and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

**3. 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 September 30, 2014, was \$nil (December 31, 2013: \$nil).

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

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

	September 30, 2014	December 31, 2013
	\$	\$
Current	20,909	15,012
Past due zero to thirty days	5	20
<b>Total</b>	<b>20,914</b>	<b>15,032</b>

Included in the current amount above is \$5,760 (December 31, 2013: \$4,718) related to expected recoveries for certain incremental exit costs. See Note 7 for additional information on this balance.

**4. PLANT AND EQUIPMENT**

Plant and equipment consists of the following:

	Leasehold improvements	Manufacturing equipment	Automotive equipment	Other equipment and furniture	Open capital projects	Total
	\$	\$	\$	\$	\$	\$
<b>Cost:</b>						
<b>January 1, 2013</b>	<b>2,056</b>	<b>29,944</b>	<b>262</b>	<b>5,050</b>	<b>122</b>	<b>37,434</b>
Additions	9	251	-	385	(122)	523
Disposals	-	(43)	-	-	-	(43)
<b>December 31, 2013</b>	<b>2,065</b>	<b>30,152</b>	<b>262</b>	<b>5,435</b>	<b>-</b>	<b>37,914</b>
Additions	-	6	-	41	-	47
<b>September 30, 2014</b>	<b>2,065</b>	<b>30,158</b>	<b>262</b>	<b>5,476</b>	<b>-</b>	<b>37,961</b>
<b>Accumulated depreciation:</b>						
<b>January 1, 2013</b>	<b>1,539</b>	<b>21,981</b>	<b>193</b>	<b>3,399</b>	<b>-</b>	<b>27,112</b>
Depreciation	204	5,244	30	898	-	6,376
<b>December 31, 2013</b>	<b>1,743</b>	<b>27,225</b>	<b>223</b>	<b>4,297</b>	<b>-</b>	<b>33,488</b>
Depreciation	241	2,167	28	800	-	3,236
<b>September 30, 2014</b>	<b>1,984</b>	<b>29,392</b>	<b>251</b>	<b>5,097</b>	<b>-</b>	<b>36,724</b>
<b>Carrying amount:</b>						
<b>December 31, 2013</b>	<b>322</b>	<b>2,927</b>	<b>39</b>	<b>1,138</b>	<b>-</b>	<b>4,426</b>
<b>September 30, 2014</b>	<b>81</b>	<b>766</b>	<b>11</b>	<b>379</b>	<b>-</b>	<b>1,237</b>

Proceeds from disposals are netted against the related asset's cost and accumulated depreciation and included in other expense (income) on the statement of operations.

**5. OTHER ASSETS**

The Company has a defined benefit pension plan for a former Chief Executive Officer. The expense for the three and nine-month periods ended September 30, 2014 was \$14 and \$41, respectively (2013: \$18 and \$53, respectively).



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

**6. FINANCIAL INSTRUMENTS BY CATEGORY**

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

**At September 30, 2014:**

	<b>Loans and receivables</b>
	<b>\$</b>
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	43,806
Trade and other receivables	20,914
<hr/>	
<b>Total</b>	<b>64,720</b>
<hr/>	
	<b>Financial liabilities at amortized cost</b>
	<b>\$</b>
<hr/>	
<b>Liabilities</b>	
Trade payables and accrued liabilities	6,862
<hr/>	
<b>Total</b>	<b>6,862</b>
<hr/>	

**At December 31, 2013:**

	<b>Loans and receivables</b>
	<b>\$</b>
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	35,902
Trade and other receivables	15,032
<hr/>	
<b>Total</b>	<b>50,934</b>
<hr/>	
	<b>Financial liabilities at amortized cost</b>
	<b>\$</b>
<hr/>	
<b>Liabilities</b>	
Trade payables and accrued liabilities	5,738
<hr/>	
<b>Total</b>	<b>5,738</b>
<hr/>	

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.

**7. PROVISIONS AND EXIT COSTS**

**Contract update and exit costs**

On May 14, 2013, the Company was advised by Ford that Ford 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.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

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.

During the fourth quarter of 2013, 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.

**Exit costs**

During the first three quarters of 2014, the Company recorded net exit costs of \$1,139 and \$2,418 for the three and nine-month periods, respectively (2013: \$nil and \$4,000, respectively).

The majority of 2013 net exit costs related to the Company's severance obligation to its hourly workforce as outlined in its collective agreement, as well as the Company's statutory severance obligation to its salaried workforce. Also included in this amount were smaller amounts for certain facility and other employee-related costs.

Net exit costs recorded in 2014 predominately relate to additional severance costs for salaried employees and lease termination payments made to the Company's Oakville landlords. Salaried employees were provided with formal termination notification during the previous two quarters. In the second quarter, the Company also advised its Oakville-area landlords of its intention to exercise the early termination clause in each of the facility leases to align the lease termination dates with the Company's anticipated final occupancy date of each location. Also included in the costs recorded during the first nine months of the year were additional facility and other employee-related costs.

The Company also expects to record additional facility and other closure-related costs at the time they are incurred or at the time the facility is closed, depending on their nature.

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

**Reimbursement of costs**

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

**Plant and equipment impairment**

During the quarter, Automodular reviewed the carrying value of its 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 needed to be recorded as at September 30, 2014.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS AT SEPTEMBER 30, 2014 and 2013  
(unaudited)**

(All numbers in thousands of Canadian dollars, except share and per share amounts)

**Provisions**

	Severance and Facility \$	Decommissioning \$	Other \$	Total \$
<b>Balance, January 1, 2014</b>	<b>8,342</b>	<b>534</b>	<b>600</b>	<b>9,476</b>
Plus: additions to the provision	3,483	103	771	4,357
Less: amounts paid	(1,298)	-	-	(1,298)
<b>Balance, September 30, 2014</b>	<b>10,527</b>	<b>637</b>	<b>1,371</b>	<b>12,535</b>

Severance and facility provisions

Included in severance and facility provisions above are severance and facility costs related to the anticipated closure of the Company's Oakville facilities upon the expiration of the contract extension with Ford.

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 closure 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.

**8. CAPITAL STOCK**

	September 30, 2014		December 31, 2013	
	Outstanding #	Amount \$	Outstanding #	Amount \$
<b>Issued and outstanding common shares</b>	19,378,903	22,969	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.

There were no new common shares issued in the nine month periods ended September 30, 2014 and 2013.

**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 renewed Normal Course issuer 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 renewed Normal Course issuer bid commenced on August 19, 2013 and terminated on August 18, 2014.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS AT SEPTEMBER 30, 2014 and 2013  
(unaudited)**

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

In the three and nine-month periods ended September 30, 2014, no shares were repurchased for cancellation. During the third quarter of 2013, 401,400 shares, with a carrying value of \$1,067, were repurchased for cancellation at a total cost of \$793. During the nine-month period ended September 30, 2013, 813,945 shares with a carrying value of \$1,783 were repurchased for cancellation at a total cost of \$1,464.

**Stated capital reduction**

At the Annual and Special Meeting of Shareholders held on May 8, 2014, the shareholders approved the special resolution reducing the stated capital account maintained for the Company's common shares by the sum of \$19,379. The Company increased the contributed surplus account maintained for its common shares, being an amount equivalent to the reduction of stated capital.

The Company's contributed surplus account represents the premium received on the issue of par value shares, the portion of proceeds of issue of no par value shares that has been allocated to surplus, credits resulting from redemption or conversion of shares at less than the amount set up as share capital or any other contributions in excess of stated value of shares made by shareholders.

**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. The options are to be granted 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 the three and nine-month periods ended September 30, 2014 and 2013.

**Long-term incentive plan**

The Company has a long-term incentive plan (the "Plan" or "LTIP") for designated participants of Automodular. The Plan currently holds one share and is in the process of being wound down. No additional contributions under this Plan are being contemplated at this time. All compensation expense related to this plan has been recognized in prior periods.

**Dividends**

In the three and nine-month periods ended September 30, 2014, dividends totalling \$1,162 and \$3,488, respectively (2013: \$1,188 and \$3,614, respectively) were declared and paid. Dividends have been reflected net of internal dividends of \$nil for both the three and nine-month periods ended September 30, 2014 (2013: \$nil and \$6, respectively).

In light of the closure of the Oakville operations and ongoing diversification efforts, the Board of Directors has elected not to declare a dividend in the fourth quarter of 2014. The Company will revisit its dividend policy in conjunction with its go forward plans in the first quarter of 2015 and will communicate with its stakeholders at that time.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

**Weighted average common shares outstanding**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	#	#	#	#
Weighted average issued common shares	19,378,903	20,212,849	19,378,903	20,212,849
Less: weighted average shares cancelled under NCIB	-	(130,375)	-	(218,525)
Less: weighted average LTIP treasury shares	-	(58,429)	-	(18,706)
<b>Weighted average common shares outstanding – basic and fully diluted</b>	<b>19,378,903</b>	<b>20,024,045</b>	<b>19,378,903</b>	<b>19,975,618</b>

**9. INTEREST (INCOME)**

Interest (income) includes interest income earned as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Interest (income) on cash and cash equivalents</b>	<b>(106)</b>	<b>(48)</b>	<b>(285)</b>	<b>(147)</b>

**10. OTHER EXPENSE (INCOME)**

The components of other expense (income) include the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
(Gain) on disposal of investments	-	-	-	(110)
Other comprehensive loss recycled to net earnings	-	-	21	-
(Gain) loss on foreign exchange	(6)	13	(7)	(28)
<b>Total</b>	<b>(6)</b>	<b>13</b>	<b>14</b>	<b>(138)</b>

**11. TAXATION**

The consolidated effective tax rate in respect of the operations for the three and nine-month periods ended September 30, 2014 was 26% (2013: 27%) and is based on management's best estimate of the annual income tax rate expected for the full financial year.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

**12. 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, is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Salaries, fees and short-term employee benefits	468	443	1,403	1,329
Post-employment benefits	-	-	-	15
<b>Total</b>	<b>468</b>	<b>443</b>	<b>1,403</b>	<b>1,344</b>

**13. 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 September 30, 2014:

	Total	Less than 1 year
	\$	\$
Trade payables and accrued liabilities	6,862	6,862
Provisions	12,535	12,535
<b>Total</b>	<b>19,397</b>	<b>19,397</b>

**Operating leases**

All of the Company's facilities are subject to operating leases and 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.

	\$
Balance of 2014	726
2015	448
<b>Total</b>	<b>1,174</b>

Payments on current operating leases over the next 12 months total \$1,174.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2014 and 2013**  
*(unaudited)*

*(All numbers in thousands of Canadian dollars, except share and per share amounts)*

During the second quarter, the Company made lease termination payments to amend the lease termination date to February, 2015.

**14. EXPENSES BY NATURE**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and employee benefits	10,238	11,138	30,457	33,377
Transportation and facility-related costs	2,176	2,238	6,669	6,957
Other	1,724	1,733	5,678	5,252
Depreciation	1,090	1,757	3,236	5,276
Exit costs	1,139	-	2,418	4,000
<b>Total cost of sales, exit costs and general and administrative expenses</b>	<b>16,367</b>	<b>16,866</b>	<b>48,458</b>	<b>54,862</b>