



AUTOMODULAR CORPORATION  
2015 ANNUAL REPORT



AUTOMODULAR CORPORATION

## CONTENTS

Financial Highlights .....	3
Management Discussion and Analysis of Operating Results and Financial Position .....	4
Management's Responsibility for Financial Reporting .....	17
Independent Auditor's Report. ....	18
Consolidated Statements of Financial Position .....	19
Consolidated Statements of Shareholders' Equity .....	20
Consolidated Statements of Operations and Comprehensive Income .....	21
Consolidated Statements of Cash Flows .....	22
Notes to Consolidated Financial Statements .....	23
Investor Information .....	40
Corporate Information .....	41

## FINANCIAL HIGHLIGHTS

<i>(thousands of Canadian dollars except per share amounts)</i>	<b>Year ended December 31, 2015</b> \$	<b>Year ended December 31, 2014</b> \$
Sales	-	85,761
Net earnings (loss)	(2,404)	14,763
Net earnings (loss) per share	(0.14)	0.76
Total assets	36,911	69,849
Shareholders' equity	36,117	54,273

# MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

For the Years Ended December 31, 2015 and 2014

This Management Discussion and Analysis (“MD&A”) was prepared as of March 3, 2016 and should be read in conjunction with Automodular Corporation’s (the “Company’s”) audited consolidated financial statements for the years ended December 31, 2015 and 2014, together with the notes thereto. The MD&A discusses our performance and financial condition, provides an update on financial and non-financial developments during the past year and addresses future prospects.

## BASIS OF PRESENTATION

Automodular Corporation is a Canadian-based company and our accounting policies are in accordance with International Financial Reporting Standards (“IFRS”). Unless the content otherwise indicates, all dollar amounts are shown in Canadian dollars and references to “Automodular” or to “the Company” refer to Automodular Corporation and its direct and indirect subsidiaries.

## COMPANY AND INDUSTRY OVERVIEW

On May 14, 2013, the Company was advised by Ford Motor Company (“Ford”) that, for its new program scheduled to commence in 2015, Ford intended to insource the sub-assembly and sequencing services that were being performed by Automodular at that time. Ford stated that this decision was a strategic one; they viewed the modules that Automodular assembled to be “core” to the assembly of a vehicle and their goal was to try to have all core modules assembled in their final assembly plants. In addition to those strategic considerations, Automodular believes that Ford’s cost structure was closer to ours than it has ever been. Ford was able to hire workers to do the work at compensation levels that were essentially at par with ours. Further, we had been informed that the Ford Oakville Assembly Plant had extra space to accommodate the work that was being insourced.

Following the expiry of the Company’s commercial agreement with Ford on December 23, 2014, Automodular ceased operations at its two facilities in Oakville, Ontario. During the first quarter of 2015 both facilities were returned to the respective landlords and as of the date of this MD&A, Automodular has no active operations. The Company has retained two salaried employees and one part-time consultant.

Any comparison of results between the current year and 2014 would not be meaningful. Results for 2015 reflected ongoing administrative costs, costs with respect to the legal claim against General Motors Company and General Motors of Canada Ltd. (“GM litigation”) and exit costs relating to the closure of the Company’s Oakville facilities.

Automodular’s primary business during 2014 was the sequencing and sub-assembly of modules for installation in final products which were being assembled by Ford, in Ontario.

Automodular’s Board of Directors, executive management team and senior management spent substantial time over the last few years searching for and evaluating additional opportunities to leverage our core skills. We fulfilled a contract manufacturing agreement with Vestas Nacelles A/S (“Vestas”), a global wind OEM based in Denmark, to provide sub-assembly services for certain wind turbine components for the renewable energy industry in Ontario.

The contract was successfully completed in 2012 and exceeded our operating and financial expectations. The removal of local content requirements in Ontario has dramatically reduced the opportunities for the Company in this space.

## **2015 OVERVIEW**

Automodular reports a net loss of \$(2.4) million or \$(0.14) per share for the current year compared to net earnings of \$14.8 million or \$0.76 per share in 2014. As noted above, Automodular's operations ceased production in December 2014. Accordingly, any comparisons of results between the current year and 2014 will not be meaningful.

Results for the current year reflect ongoing administrative costs, costs with respect to the GM litigation and exit costs relating to the closure of the Company's Oakville facilities.

On March 16, 2015 Automodular was advised that the Toronto Stock Exchange (the "TSX") had commenced a review of the Company's eligibility for continued listing pursuant to Part VII of the Toronto Stock Exchange Company Manual. In the third quarter, Automodular announced that the Continued Listing Committee of the TSX had determined that the Company no longer met the criteria for continued listing on the TSX since the Company is not actively engaged in ongoing business. On August 14, 2015, Automodular's common shares were delisted from the TSX. Effective August 17, 2015, the shares commenced trading on NEX, a separate board of the TSX Venture Exchange. The shares are trading under the symbol "AM.H".

On April 9, 2015 Automodular announced that the TSX had accepted the Corporation's notice of intention to undertake a normal course issuer bid ("NCIB"). Automodular may acquire up to 1,389,738 of its common shares, which represents 10% of the public float of Automodular's common shares issued and outstanding as of March 31, 2015, as defined by the policies of the TSX. The NCIB was put on hold during the course of the Substantial Issuer Bid ("SIB"). During 2015, under the NCIB, Automodular purchased for cancellation a total of 190,200 common shares for total cash consideration of \$0.5 million.

On August 6, 2015, Automodular announced its intention to enter into a SIB pursuant to which the Company would offer to repurchase for cancellation up to \$15 million in value of its outstanding common shares from shareholders. The SIB proceeded by way of a modified "Dutch auction", which expired on September 17, 2015. In conjunction with the substantial issuer bid, the Board of Directors announced the reversal of the remaining 2014 stated capital reduction balance; thereby increasing the stated capital account by \$19.3 million. A total of 5,660,377 shares were repurchased at \$2.65 per share for a total cost of \$15.2 million, inclusive of \$0.2 million in fees. Prior to the repurchase, these shares had a carrying value of \$12.4 million.

## **RISK FACTORS**

The following are some of the more significant risks that could impact the Company and its future results:

### **Lack of ongoing operations**

Subsequent to the closure of its Oakville operations in December 2014, Automodular has no ongoing operations. The Board of Directors and remaining executive management team continue to review opportunities to leverage the Company's cash balance and public company listing. There can be no assurance that Automodular will be successful in finalizing a transaction going forward.

### Dependence upon key personnel

The success of the Company is dependent on the services of its remaining executive management team. The experience and talents of these individuals will be a significant factor in the Company's continued success. The loss of either of these individuals without adequate replacement measures could have a material adverse effect on the Company's business prospects. The Company maintains key man life insurance on the current CEO and the Vice-President in the amount of \$2.0 million.

### Product warranty, recall and liability risk

OEM manufacturers are asking more and more that each of their suppliers bears the costs of the repair and replacement of defective products which are either covered under a manufacturer's warranty or are the subject of a recall by the manufacturer. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's financial condition. Historically, Automodular has not been exposed to any significant costs in this regard.

### GM and other potential litigation

Although the Company is unaware of any material claims against it, there can be no assurances that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements.

In the event that the Company is not successful in its claim against GM, Automodular could be exposed to a claim for recovery of legal costs by GM.

## RESULTS OF OPERATIONS

Automodular's comparative consolidated operating results for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
<i>(thousands of Canadian dollars)</i>	\$	\$
Sales	-	85,761
Cost of sales	(1,379)	58,055
Exit costs	1,081	3,504
<b>Gross margin</b>	298	24,202
General and administrative expense	3,720	5,435
Interest (income)	(304)	(506)
Other (income)	(41)	(452)
<b>Earnings (loss) before income taxes:</b>	<b>(3,077)</b>	<b>19,725</b>
Income taxes	(673)	4,962
<b>Net earnings (loss) attributable to the shareholders</b>	<b>(2,404)</b>	<b>14,763</b>

**Sales and cost of sales**

As previously noted, Automodular's operations ceased production in December 2014; therefore there were no sales in 2015. Cost of sales for the current year reflects recoveries relating to the successful mitigation of previously recognized obligations related to the Oakville operations.

**Exit costs**

Current year costs relate to severance for three members of the executive management team as well as facility-related amounts including rent and occupancy expenses for the first quarter of 2015 and costs incurred to restore the facilities as required under the respective leases.

During 2014, the Company recorded net exit costs of \$3.5 million which predominately related 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 second and third quarters of 2014. In the second quarter of 2014, 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 2014 were additional facility and other employee-related costs. Additional information on net exit costs is contained in Note 8 of the Company's consolidated financial statements.

Exit costs in the current and prior year have been included in the consolidated statement of operations net of reimbursements from Ford.

**General and administrative expense**

Annual general and administrative expenses were lower than in 2014 due to the rationalization of our cost structure as discussed in the '2015 Recap and Outlook' section of this MD&A.

**Interest (income)**

Interest (income) was lower than in 2014 due to lower cash balances following the SIB, lower interest rates and certain interest expense paid.

**Other (income)**

The balance was lower in 2015. The 2014 balance included gains with respect to the sale of certain fixed assets on the closure of the Company's Oakville operations.

**Earnings before income taxes**

As discussed previously, Automodular generated a loss in 2015 due to the closure of its Oakville operations at the end of 2014.



## HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(thousands of Canadian dollars except per share amounts)

	2015				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	-	-	-	-	19,549	18,772	21,294	26,146
Net earnings (loss)	(1,643)	(76)	(331)	(354)	3,160	1,571	3,726	6,306
Per share basic and diluted	(0.09)	(0.00)	(0.02)	(0.03)	0.16	0.09	0.19	0.32

A comparison of the current year's results with the previous year is not meaningful as Automodular no longer has active operations.

The following discussion is provided to give context to the results during 2014, when the Company had active operations. In the automotive industry, the first and second quarters of the year typically generated higher earnings than the third and fourth quarters because there were a greater number of non-production days (statutory holidays throughout and the third quarter generally has a two-week closure for summer shutdown) in the latter half of the year. However, our results in 2014 did not reflect that.

The results in 2014 were significantly impacted by the recognition of exit costs related to Ford's announcement to Automodular of its decision to insource the work performed by Automodular at the end of 2014. The 2014 results, particularly those in the first and second quarters, were also negatively impacted by the combination of production downtime and lower daily volumes as previously noted. Q4 2014 benefitted from higher production volumes year over year and improved efficiencies obtained through the Ford contract wind down.

Results for 2015 reflected ongoing administrative costs, costs with respect to the GM litigation and exit costs relating to the closure of the Company's Oakville facilities.

### FOURTH QUARTER

	2015	2014
(thousands of Canadian dollars)	\$	\$
Sales	-	26,146
Cost of sales	(360)	16,002
Exit costs	-	1,086
<b>Gross margin</b>	<b>360</b>	<b>9,058</b>
General and administrative expense	647	1,448
Interest expense (income), net	9	(221)
Other expense (income), net	11	(466)
<b>Earnings (loss) before income taxes:</b>	<b>(307)</b>	<b>8,297</b>
Income taxes	47	1,991
<b>Net earnings (loss) attributable to the shareholders</b>	<b>(354)</b>	<b>6,306</b>

A comparison of the fourth quarter results with the previous year is not meaningful as Automodular no longer has active operations.

Cost of sales for the current quarter reflects recoveries relating to the successful mitigation of previously recognized obligations related to the Oakville operations. Interest income is lower due to lower cash balances, interest rates and interest expenses paid on income taxes. Income taxes in the current period reflect the reversal of certain deferred tax assets given the extended period of time of their realization.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

<i>(thousands of Canadian dollars)</i>	<b>2015</b>	<b>2014</b>
	\$	\$
Net earnings (loss)	(2,404)	14,763
Income taxes (paid)	(1,737)	(2,080)
Pension contribution	(53)	(53)
Provisions	(8,959)	(6,163)
Items not involving current cash flows	1,294	8,663
Non-cash working capital	7,773	6,008
<b>Net cash provided (used) by operating activities</b>	<b>(4,086)</b>	<b>21,138</b>

Net cash of \$4.1 million was used by operating activities in the current year. In 2014 \$21.1 million in net cash was generated by operating activities. As previously noted, Automodular's operations ceased in December 2014. The current amounts reflect the closure of the Company's Oakville operations and the realization of working capital amounts and payments of exit costs in the course of winding down those operations.

### Investing activities

<i>(thousands of Canadian dollars)</i>	<b>2015</b>	<b>2014</b>
	\$	\$
Proceeds on disposal (purchase) of plant and equipment, net	39	395
Interest received on cash and cash equivalents	304	506
<b>Net cash provided by investing activities</b>	<b>343</b>	<b>901</b>

Net proceeds on disposal of plant and equipment (proceeds on dispositions less purchases) in 2014 were generated by the sale of the Company's manufacturing assets in December 2014.

## Financing activities

	2015	2014
<i>(thousands of Canadian dollars)</i>	\$	\$
Repurchase of shares under normal course issuer bid	(465)	-
Repurchase of shares under SIB	(15,236)	-
Dividends paid	-	(3,488)
<b>Net cash (used) in financing activities</b>	<b>(15,701)</b>	<b>(3,488)</b>

Automodular paid total dividends of \$0.18 per share during 2014. Automodular did not pay any dividends in 2015.

## FINANCING RESOURCES

Automodular's cash and cash equivalents on hand at December 31, 2015 was \$35.1 million compared to \$54.5 million at the end of 2014. This cash on hand will allow it to address its ongoing needs, cover costs with respect to the GM litigation, and at the same time, still provide flexibility to fund potential new diversification initiatives.

## DERIVATIVE FINANCIAL INSTRUMENTS

Automodular does not have any derivative financial instruments outstanding. The Company does not enter into foreign exchange contracts for speculative purposes.

## CONTRACTUAL OBLIGATIONS DUE BY YEAR AND OFF BALANCE SHEET FINANCING

Additional information with respect to the Company's defined benefit pension plan (the "Plan") for a former Chief Executive Officer is contained in Note 6 of the Company's consolidated financial statements. The Plan currently shows a net accrued benefit obligation on the balance sheet of \$0.2 million. However, based on the actuarial valuation for funding purposes completed on January 1, 2014 the Plan showed a deficit of \$0.5 million which is being funded over a period of 10 years. The difference between the amount recognized on the consolidated financial statements and the amount in the actuarial report relates to the use of differing assumptions as required under IFRS.

## SHAREHOLDERS' EQUITY

Shareholders' equity decreased from \$54.3 million at December 31, 2014 to \$36.1 million at December 31, 2015. This decrease is primarily as a result of the current period loss, the NCIB and the SIB.

## OUTSTANDING SHARE DATA

*(thousands of Canadian dollars except share amounts)*

	December 31, 2015		December 31, 2014	
	Outstanding #	Amount \$	Outstanding #	Amount \$
<b>Common shares</b>	<b>13,528,327</b>	<b>29,563</b>	<b>19,378,904</b>	<b>22,969</b>

From December 31, 2015 to the date of this filing, Automodular has repurchased 312,500 common shares under its NCIB.

## **GM LITIGATION UPDATE**

As previously disclosed, Automodular has commenced a claim in the Ontario Superior Court of Justice (the “Claim”) against General Motors Company and General Motors of Canada Ltd. (collectively, “GM”), and Inteva Products, LLC and Inteva Products Canada ULC (collectively, “Inteva”). The Claim relates to a contract (the “Contract”) between GM and Automodular for the sequencing and sub-assembly of components and modules for the Chevrolet Camaro. By letter dated April 13, 2010, GM terminated the Contract effective September 20, 2010. GM then entered into a contract with Inteva for the same work that Automodular was performing under the Contract. Automodular alleges that GM’s termination of the Contract was wrongful and in breach of the Contract. Automodular claimed \$20.0 million against GM for breach of contract and against Inteva for inducing breach of contract. Automodular also sought punitive damages in the amount of \$5.0 million.

The statement of Claim was issued on May 13, 2011 and served upon GM and Inteva. The defendants subsequently delivered statements of defence contesting the Claim. The parties exchanged documentary productions and conducted initial oral examinations for discovery. As previously disclosed, having obtained evidence from Inteva by way of the discovery process, on August 5, 2015 Automodular agreed to a dismissal of its claim against Inteva.

Automodular conducted a further examination for discovery of GM in July 2015. GM refused to answer a number of questions asked on that further examination and was delayed in providing responses to the undertakings that it gave on that further examination. Automodular scheduled a motion returnable December 15, 2015 to address the outstanding discovery issues. As a result, a Court Order was issued requiring GM to deliver answers to the questions refused and outstanding undertakings. A mandatory mediation was held on November 4, 2015. No resolution was reached. Automodular has served and filed its Trial Record in order to set the matter down for trial. Dates for pre-trial and trial will be scheduled by the Court in due course. There can be no assurance that the claim will be successful or that Automodular will recover any amounts from GM.

## **US SHAREHOLDER INFORMATION UPDATE**

Based on results of its analysis, Automodular has concluded, for the year ending December 31, 2015, that it meets the definition of a Passive Foreign Investment Corporation (“PFIC”) as defined in the Internal Revenue Code. The U.S. tax laws regarding PFICs are extremely complex and shareholders are advised to consult their own tax advisors concerning the overall tax consequences of their respective investment in, and ownership of shares of Automodular under United States federal, state, local and foreign law. It is Automodular’s intention to prepare and make available to U.S. shareholders a PFIC Annual Information Statement in order to allow U.S. shareholders to make certain tax elections. We expect that the information will be available on or about March 31, 2016 and that the information will be filed on SEDAR and posted on our website at [www.automodular.com](http://www.automodular.com).

## **2015 RECAP AND OUTLOOK**

The forward-looking statements below are not historical facts but reflect the Company’s current expectations regarding future results or events and are based on information currently available to management. Certain material factors and assumptions were applied in providing these forward-looking statements. Please review our forward-looking statement disclaimer at the end of this MD&A which includes a list of material factors and assumptions applied in providing these forward-looking statements.

For the 2015 year we reported an after tax loss of approximately \$2.4 million which was a lower loss than previously forecasted in last year's MD&A, primarily due to the mitigation of certain expenses relating to our Oakville operations.

During the first quarter of 2015, we returned our Oakville facilities back to the respective landlords as planned. We rationalized our cost structure substantially over the year. We have reduced our staffing complement to two full time employees and one part-time consultant. In addition, we moved to a smaller corporate office and reduced our Board size.

Through the SIB, we provided a liquidity opportunity for shareholders who did not wish to retain their shares through the GM litigation process or await opportunities that could arise out of Automodular's diversification initiatives. The offer was nominally oversubscribed. We will continue to repurchase shares through our current NCIB when considered prudent.

Moving forward, our focus is on advancing the GM litigation while actively containing costs. We remain open to considering transactional opportunities to leverage our public company listing and cash balances.

Automodular expects that its annualized cash expenditures for 2016 will be approximately \$2.0 million after tax with costs more skewed to the latter half of 2016. Amounts will fluctuate depending on the status of the GM litigation.

The Board of Directors has elected not to declare a dividend in the first quarter of 2016. The Company will revisit its dividend policy in conjunction with its go forward plans on a quarterly basis and will update its shareholders accordingly.

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

Our significant accounting policies are more fully described in Note 1 "*Summary of Business, Basis of Presentation and Significant Accounting Policies*" to our consolidated financial statements for the year ended December 31, 2015.

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.

Following the closure of the Company's Oakville operations and wind down of the associated balances, there are no estimates or judgments applied by management that are uncertain and/or material enough to 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.

Areas which previously involved a higher degree of judgment or complexity, or areas where assumptions and estimates were significant to the financial statements, are set out in Note 3 to the Company's 2015 consolidated 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, 2016 have not been applied in preparing the 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 is 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, 2018 and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

### International Financial Reporting Standard 16, *Leases*

On January 13, 2016, the IASB issued IFRS 16, Leases, which replaces the current guidance in IAS 17, Leases. IFRS 16 required lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to its President, Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), and its Audit Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Company’s CEO/CFO, to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

The Company will file certifications, signed by the Company’s CEO/CFO, with the Canadian Securities Administrators (“CSA”). In those filings, the Company’s CEO/CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Company’s disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The Company’s CEO/CFO also certifies the appropriateness of the financial disclosures in the Company’s interim filings with securities regulators. In those interim filings, the Company’s CEO/CFO also certify the design of the Company’s disclosure controls and procedures and the design of internal controls over financial reporting.

The Company’s Audit Committee reviewed this MD&A and the audited consolidated financial statements, and the Company’s Board of Directors approved these documents prior to their release.

## **MANAGEMENT’S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES**

Management, under the supervision of and with the participation of the Company’s CEO/CFO, evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2015, that such disclosure controls and procedures were effective.

## **MANAGEMENT’S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management, under the supervision of and with the participation of the Company’s CEO/CFO, evaluated the effectiveness of the Company’s internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee Sponsoring Organizations of the Treadway Commissions (“COSO”) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO/CFO have concluded that, as at December 31, 2015, the Company’s internal controls over financial reporting were effective.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

As a result of the completion of the Ford contract, the closure of the Oakville facilities, the reduction in volume and changes in the nature of transactions, the Company has reduced its workforce, including the finance function. This has resulted in the Company modifying certain internal controls and introducing compensating controls to mitigate

the impact of the reduced finance function. Accordingly, during 2015, while there have been changes to internal controls, we do not believe that the changes materially affect, nor are they reasonably likely to materially affect, the Company's ability to fulfill its financial reporting obligations.

## FORWARD-LOOKING STATEMENTS

This MD&A contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements may include, but are not limited to, financial and other projections, as well as statements regarding our future plans, objectives or performance, anticipated business development, anticipated industry developments, our views on the long-term outlook of the automotive or renewable energy industry, our views on the future of outsourcing versus insourcing, or our underlying assumptions. Words such as "may", "would", "could", "will", "likely", "estimate", "anticipate", "believe", "expect", "intend" or other similar expressions are intended to identify forward-looking statements. Such forward-looking statements, or forward-looking information, reflect management's beliefs, estimates and opinions regarding Automodular's future growth, results of operations, performance and business prospects and opportunities and are not guarantees of future results. Specific forward-looking information in this document includes:

- that the Company's cash on hand will allow it to address its ongoing needs, cover costs with respect to the GM litigation, and at the same time, still provide flexibility to fund potential new diversification initiatives;
- the current Court-ordered timetable requires the matter to be set down for trial by April 29, 2016, following which point the Court will schedule a trial date;
- we will continue to repurchase shares through our current NCIB when considered prudent;
- that our focus is on moving the GM litigation forward while actively containing costs;
- we remain open to considering transactional opportunities to leverage our public company listing and cash balances;
- Automodular expects that its annualized cash expenditures for 2016 will be approximately \$2.0 million after tax with costs more skewed to the latter half of 2016. Amounts will fluctuate depending on the status of the GM litigation; and
- the Company will revisit its dividend policy in conjunction with its go forward plans on a quarterly basis and will update its shareholders accordingly.

By its nature, forward-looking information involves certain risks, uncertainties and other factors which may cause actual future results to differ materially from those expressed or implied in any forward-looking statements and include but are not limited to the following:

- our ability to secure ongoing operations through acquisition;
- our ability to identify, close and integrate acquisitions;
- our ability to finance new business requirements; and
- our dependence on key personnel.

Persons reading this MD&A should not place undue reliance on forward-looking statements and are cautioned that forward-looking statements are only estimates and that our actual future results or performance may be materially different due to inherent risks and uncertainties surrounding future expectations, assumptions not being realized, changes in facts or other unforeseen circumstances. Except as required by continuous disclosure obligations, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results, circumstances or otherwise.



## **ADDITIONAL INFORMATION**

Additional information regarding the Company for the year ended December 31, 2015, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

March 3, 2016

## 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 properly 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, 2015 and December 31, 2014 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.

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

[signed] **Christopher S. Nutt**  
Chief Financial Officer

Ajax, Ontario  
March 3, 2016

# 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, 2015 and December 31, 2014 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.

### **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, 2015 and December 31, 2014 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**

Oakville, Ontario

March 3, 2016

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2015	December 31, 2014
<b>ASSETS</b>			
Cash and cash equivalents	7	\$ 35,058	\$ 54,489
Trade and other receivables	5 and 7	211	14,070
Income taxes recoverable	10	1,296	-
Prepaid expenses		143	606
<b>Current assets</b>		<b>36,708</b>	<b>69,165</b>
Deferred income taxes	3 and 10	203	684
<b>Total assets</b>		<b>\$ 36,911</b>	<b>\$ 69,849</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Trade payables and accrued liabilities	7	\$ 601	\$ 5,974
Provisions	3 and 8	25	7,903
Income taxes payable	10	-	1,617
<b>Current liabilities</b>		<b>626</b>	<b>15,494</b>
Other liabilities	6	168	82
<b>Total liabilities</b>		<b>\$ 794</b>	<b>\$ 15,576</b>
<b>Total shareholders' equity</b>		<b>\$ 36,117</b>	<b>\$ 54,273</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 36,911</b>	<b>\$ 69,849</b>

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.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total
<b>Balance, December 31, 2014</b>		<b>\$ 22,969</b>	<b>\$ 20,084</b>	<b>\$ -</b>	<b>\$ 11,220</b>	<b>\$ 54,273</b>
Net loss		-	-	-	(2,404)	(2,404)
Actuarial remeasurement	6	-	-	-	(62)	(62)
Foreign currency translation		-	-	11	-	11
<b>Comprehensive loss</b>		-	-	11	(2,466)	(2,455)
Stated capital resolution	9	19,268	(19,268)	-	-	-
Shares repurchased under substantial issuer bid	9	(12,369)	-	-	(2,867)	(15,236)
Shares repurchased under normal course issuer bid	9	(305)	(111)	-	(49)	(465)
<b>Balance, December 31, 2015</b>		<b>\$ 29,563</b>	<b>\$ 705</b>	<b>\$ 11</b>	<b>\$ 5,838</b>	<b>\$ 36,117</b>

<i>(thousands of Canadian dollars)</i>	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income	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		-	-	-	14,763	14,763
Actuarial remeasurement	6	-	-	-	(174)	(174)
Other comprehensive loss recycled to net earnings		-	-	21	-	21
<b>Comprehensive income</b>		-	-	21	14,589	14,610
Stated capital reduction	9	(19,379)	19,379	-	-	-
Dividends	9	-	-	-	(3,488)	(3,488)
<b>Balance, December 31, 2014</b>		<b>\$ 22,969</b>	<b>\$ 20,084</b>	<b>\$ -</b>	<b>\$ 11,220</b>	<b>\$ 54,273</b>

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

<i>(thousands of Canadian dollars, except share and per share amounts)</i>	Notes	2015	2014
Sales		\$ -	\$ 85,761
Cost of sales	13	(1,379)	58,055
Exit costs	8 and 13	1,081	3,504
<b>Gross margin</b>		298	24,202
General and administrative expense	13	3,720	5,435
Interest (income)		(304)	(506)
Other (income)		(41)	(452)
<b>Earnings (loss) before income taxes:</b>		(3,077)	19,725
Current income taxes	10	(1,176)	4,486
Deferred income taxes	10	503	476
<b>Net earnings (loss) attributable to the shareholders</b>		<b>\$ (2,404)</b>	<b>\$ 14,763</b>
<b>Earnings (loss) per share:</b>			
Basic and diluted	9	<b>\$ (0.14)</b>	<b>\$ 0.76</b>
<b>Weighted average common shares outstanding:</b>			
Basic and diluted	9	17,694,171	19,378,904

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

<i>(thousands of Canadian dollars)</i>	Notes	2015	2014
Net earnings (loss)		\$ (2,404)	\$ 14,763
<b>Items that may be recycled to net earnings (loss):</b>			
Other comprehensive loss recycled to net earnings (loss)		-	21
Foreign currency translation		11	-
		11	21
<b>Item that will not be recycled to net earnings (loss):</b>			
Actuarial remeasurement (net of tax \$(22); 2014 \$(72))	6	(62)	(174)
<b>Total comprehensive income (loss) attributable to the shareholders</b>		<b>\$ (2,455)</b>	<b>\$ 14,610</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

<i>(thousands of Canadian dollars)</i>	Notes	2015	2014
<b>CASH PROVIDED BY (USED IN):</b>			
<b>OPERATING ACTIVITIES</b>			
Net earnings (loss)		\$ (2,404)	\$ 14,763
Income taxes (paid)	10	(1,737)	(2,080)
Pension contribution	6	(53)	(53)
Provisions paid	3 and 8	(8,959)	(6,163)
<b>Items not involving current cash flows:</b>			
Depreciation		-	4,467
Deferred income taxes	10	503	476
Interest (income)		(304)	(506)
(Gain) on disposal of plant and equipment		(39)	(436)
Other comprehensive loss recycled to net earnings		-	21
(Gain) on foreign exchange		(2)	(37)
Pension expense	6	55	88
Provisions expense	3 and 8	1,081	4,590
<b>Net change in non-cash working capital:</b>		(11,859)	15,130
Trade and other receivables	5 and 7	13,859	962
Income taxes	10	(1,176)	4,486
Prepaid expenses		463	324
Trade payables and accrued liabilities	7	(5,373)	236
<b>Net cash provided (used) by operating activities</b>		(4,086)	21,138
<b>INVESTING ACTIVITIES</b>			
Interest received on cash and cash equivalents		304	506
Purchase of plant and equipment		-	(48)
Proceeds on disposal of plant and equipment		39	443
<b>Net cash used by investing activities</b>		343	901
<b>FINANCING ACTIVITIES</b>			
Dividends paid	9	-	(3,488)
Repurchase of shares under substantial issuer bid	9	(15,236)	-
Repurchase of shares under normal course issuer bid	9	(465)	-
<b>Net cash used by financing activities</b>		(15,701)	(3,488)
<b>Effect of exchange rate changes on cash</b>		13	36
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>\$ (19,431)</b>	<b>\$ 18,587</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>\$ 54,489</b>	<b>\$ 35,902</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 35,058</b>	<b>\$ 54,489</b>

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## AS AT DECEMBER 31, 2015 AND 2014

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

### 1. SUMMARY OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **General business description and current operations**

Automodular Corporation is a Canadian company which, effective August 17, 2015, is now listed on the NEX Board of the TSX Venture Exchange (the “TSXV”) under the symbol “AM.H”. On July 16, 2015, the Continued Listing Committee of the Toronto Stock Exchange (“TSX”) determined that Automodular Corporation no longer met the criteria for continued listing on the TSX since it was not actively engaged in ongoing business. Accordingly, Automodular Corporation’s common shares were de-listed from the TSX on August 14, 2015 and commenced trading on NEX on August 17, 2015 under the symbol “AM.H”.

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 1099 Kingston Road, Suite 214, Pickering, Ontario (formerly, 235 Salem Road South, Unit 6, Ajax, Ontario). Automodular is domiciled in Canada.

Automodular was 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 provided these services to the Ford Motor Company (“Ford”) until the completion of the multi-year agreement and its related amendments on December 23, 2014.

Following the expiry of the Company’s commercial agreement with Ford on December 23, 2014, Automodular ceased operations at its two remaining operating facilities in Oakville, Ontario. During the first quarter of 2015 both facilities were returned to the respective landlords. As of the date of these financial statements, Automodular has no active operations.

In conjunction with the closure of the operating facilities, all hourly employees and all but two salaried employees have now left the Company. As of the date of these financial statements, two salaried employees and one consultant remain.

The Company’s efforts continue on the diversification front. Both the Board of Directors and the remaining members of the executive management team are actively engaged in finding ways to leverage the cash balance and public company listing.

#### **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”) which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These financial statements were approved by the Board of Directors for issue on March 3, 2016. 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. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.



## **Subsidiaries**

Subsidiaries 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.

## **Foreign currency**

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

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary 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.

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 subsidiaries 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 and trade and other receivables. The Company's trade payables and accrued liabilities 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
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 \$nil (2014 - \$209).

#### 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.

#### 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.

#### **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 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. 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 of 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 contributed surplus and retained earnings. Shares are cancelled upon purchase.

On May 8, 2014, the shareholders approved a special resolution reducing the stated capital account maintained for the Company's common shares by the sum of \$19,379. In conjunction with the substantial issuer bid discussed in Note 9, the Board of Directors announced a reinstatement of the 2014 stated capital reduction balance; thereby increasing the stated capital account by \$19,268.

## **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**

Historically, Automodular entered into contractual agreements with customers to provide sequencing and subassembly services. Although such agreements did not provide for minimum quantities, once the Company entered into such agreements, it was generally required to fulfill its customers' purchasing requirements for the length of the commercial agreement. In general, those agreements could be terminated by its customer for convenience at any time. In certain instances, the Company could have been committed under those agreements to supply services to its customers at selling prices which were not sufficient to cover the direct cost of production. If such a situation had occurred, the Company would have considered if these meet the definition of an onerous contract.

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

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

### **Costs of sales**

Historically, labour and related costs, transportation and facility-related costs and depreciation comprised the majority of these costs.

### **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 facility-related costs and employee-related costs including severance, termination and certain other costs.

**Impairments**

The carrying values of non-financial assets with finite lives 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 the 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 for its loans and receivables as 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.

**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)**

Interest (income) includes interest expense and interest (income).

**Other (income)**

Other (income) includes gains or losses, foreign exchange and plant and equipment and other comprehensive loss recycled to net earnings.

**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.

**Current income tax**

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.

### Deferred income tax

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.

### **Earnings per share**

Basic earnings per share (“EPS”) is calculated by dividing the net earnings (loss) 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.

## **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.

### Market risk

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 interest rate risk.

### *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.

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, 2015. The effect of market interest rate fluctuations (all other variables held constant) for the year ended December 31, 2015 is as follows:

	<b>+100 bps</b>	<b>-100 bps</b>
Increase (decrease) in interest (income)	482	(380)
<b>Increase (decrease) in earnings before income taxes</b>	<b>482</b>	<b>(380)</b>

#### 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, was exposed to credit risk from its customers. The Company adjusted trade and other receivables balances, through an allowance for doubtful accounts, to expected realizable value as soon as an account was determined not to be fully collectible, with such adjustments charged to net earnings. When a receivable was considered uncollectible, it was written off against the allowance for doubtful accounts. The Company updated 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 were past due, the customer's payment history and any available information indicating that a customer could be experiencing liquidity problems. As at December 31, 2015, the allowance for doubtful accounts was \$nil (2014 - \$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 Company's trade payables and accrued liabilities are due in less than one year.

#### **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.

### 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.

No estimates and judgments applied by management are uncertain and/or material enough to have a significant effect on the current year's results of operations and carrying values of assets and liabilities recognized and disclosures made in these consolidated financial statements.

Areas which involved a higher degree of judgment or complexity, or areas where assumptions and estimates were significant to the comparative financial statements, are set out below.

#### **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 consolidated statements of financial position is an asset of \$203. See Note 10 for additional information.

#### **Exit costs**

Automodular considered 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 were made. Provisions have been recorded in conjunction with the expiry or termination of production contracts and included estimates primarily related to employee and facility-related costs.

Employee related amounts included severance, benefits and other employee costs related 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 contractual obligations with employees as communicated in their formal notification.

Facility costs projections were based on the terms of the relevant lease agreements.

Within the consolidated statements of operations, exit costs were shown net of expected reimbursements from Ford for certain incremental closure costs. These reimbursements were calculated based on the specific terms of the commercial extension agreement with Ford. See Note 8 for additional information.

#### 4. RECENT ACCOUNTING PRONOUNCEMENTS

##### Changes in accounting policies

The accounting policies followed in these 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, 2016 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 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, 2018 and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

##### International Financial Reporting Standard 16, *Leases*

On January 13, 2016, the IASB issued IFRS 16, Leases, which replaces the current guidance in IAS 17, Leases. IFRS 16 required lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on the Company's consolidated financial statements.

#### 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, 2015 was \$nil (2014 - \$nil).

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

	December 31, 2015	December 31, 2014
	\$	\$
Current	211	13,980
Past due zero to thirty days	-	90
<b>Total</b>	<b>211</b>	<b>14,070</b>



## 6. OTHER LIABILITIES

The Company has a defined benefit pension plan (“the 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<sup>st</sup> 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 current year expense was \$55 (2014 - \$88). Included in other comprehensive income (loss) for the current year is \$62 related to unrealized actuarial losses net of taxes (2014 - \$174).

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

	December 31, 2015	December 31, 2014
	\$	\$
Accrued benefit obligation	2,886	2,942
Fair value of Plan assets	2,718	2,860
<b>Net accrued benefit asset (obligation)</b>	<b>(168)</b>	<b>(82)</b>

The movement in the accrued benefit obligation is as follows:

	2015	2014
	\$	\$
<b>At January 1</b>	2,942	2,706
Interest cost, net	55	88
Return on Plan assets	53	66
Actuarial loss (gain) – economic discount rate	-	248
Actuarial loss – experience adjustment	14	12
Benefit payments	(178)	(178)
<b>At December 31</b>	<b>2,886</b>	<b>2,942</b>

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

	2015	2014
	\$	\$
<b>At January 1</b>	2,860	2,904
Actual return on Plan assets	(17)	81
Employer contributions	53	53
Benefit payments	(178)	(178)
<b>At December 31</b>	<b>2,718</b>	<b>2,860</b>

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

	2015 \$	2014 \$
<b>Pension expense, included in general and administrative expenses</b>	55	88

## 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 the pension plan assets and the duration of the 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 2015 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
<b>Effect on the net accrued benefit asset (obligation)</b>	165	(183)

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 when calculating the liability recognized in the consolidated statements of financial position.

Based on the actuarial valuation completed as of January 1, 2014, funding contributions made during the first quarter of 2016 were \$53. The next triennial valuation for the Plan is due to be completed as at January 1, 2017. The Company is required to deposit 50% of the contribution in the refundable tax account.

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

	\$
Within one year	176
Between one and five years	682
Over five years	3,419
<b>Total</b>	<b>4,277</b>

The principal actuarial assumptions as at December 31 were as follows:

	2015	2014
Discount rate	3.8%	3.8%

Invested Plan assets (excluding the \$1,258 of assets held in the refundable tax account) are composed of:

	December 31, 2015	December 31, 2014
Fixed income	41%	40%
Canadian equity	47%	48%
US equity	6%	7%
International equity	6%	5%

## 7. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Loans and receivables:

	December 31, 2015	December 31, 2014
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	35,058	54,489
Trade and other receivables	211	14,070
<b>Total</b>	<b>35,269</b>	<b>68,559</b>

### Financial liabilities at amortized cost:

	December 31, 2015	December 31, 2014
	\$	\$
<b>Liabilities</b>		
Trade payables and accrued liabilities	601	5,974
<b>Total</b>	<b>601</b>	<b>5,974</b>

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.

## 8. PROVISIONS AND EXIT COSTS

### Contractual updates

On May 14, 2013, the Company was advised by Ford that, in the fourth quarter of 2014, for its new program, Ford intended to insource the sub-assembly and sequencing services that were being performed by Automodular. On October 18, 2013, Automodular signed an extension agreement with Ford that extended its existing multi-year agreement with Ford to December 23, 2014. Before the extension, the agreement was set to end on June 30, 2014. The general framework of the agreement was in keeping with Automodular's existing multi-year agreement. As part of the extension agreement, Ford provided certain production and price-related assurances and agreed to fund certain incremental closure costs related to this extension.

### Provisions

	Severance and facility \$	Decommissioning \$	Other \$	Ford reimbursements \$	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	3,424	134	1,032	-	4,590
Less: amounts paid	(7,599)	-	(455)	1,891	(6,163)
<b>Balance, December 31, 2014</b>	<b>4,167</b>	<b>668</b>	<b>1,177</b>	<b>1,891</b>	<b>7,903</b>
Plus: additions to the provision	2,403	(126)	44	(1,240)	1,081
Less: amounts paid	(6,545)	(542)	(1,221)	(651)	(8,959)
<b>Balance, December 31, 2015</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25</b>

Net exit costs in 2015 related to severance for three members of the executive management team as well as certain facility costs related to the carrying costs on the facilities and the payment of third party suppliers and salaries for employees performing close out activities.

### Severance and facility provisions

Included in severance and facility provisions above were severance and facility costs related to the closure of the Company's Oakville facilities.

### Decommissioning provisions

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

### Other provisions

Included in other provisions were certain other closure costs which Automodular incurred with respect to the retention of its salaried employees. These costs were integral to serving out the remaining term of the Ford contract.

### Ford reimbursements

Due to the signing of the contract extension with Ford, Automodular was reimbursed for certain incremental closure costs as defined in the extension agreement. Accordingly, certain exit costs were included in the consolidated statement of operations net of the cost recoveries from Ford.

## 9. CAPITAL STOCK

### Authorized:

Unlimited number of common shares (no par value).

	Number of shares	Amount \$
<b>Issued and outstanding common shares – January 1, 2014</b>	<b>19,378,903</b>	<b>42,348</b>
Stated capital reduction	-	(19,379)
Share sold upon wind down of Long term incentive plan	1	-
<b>Issued and outstanding common shares – December 31, 2014</b>	<b>19,378,904</b>	<b>22,969</b>
Shares cancelled under the normal course issuer bid	(190,200)	(305)
Shares cancelled under the substantial issuer bid	(5,660,377)	(12,369)
Stated capital resolution	-	19,268
<b>Issued and outstanding common shares – December 31, 2015</b>	<b>13,528,327</b>	<b>29,563</b>

There were no new common shares issued in the 2015 and 2014 fiscal years.

### Normal course issuer bid (“NCIB”)

On April 9, 2015, Automodular announced that the TSX had accepted the Company’s notice of intention to enter into a normal course issuer bid. Under the terms of the normal course issuer bid, Automodular could acquire up to 1,389,738 common shares, representing 10% of the public float of Automodular’s common shares issued and outstanding as of March 31, 2015, as defined by the policies of the TSX. The NCIB commenced on April 13, 2015 and will terminate on April 12, 2016 or on such earlier date as Automodular completes its purchases. Automodular initiated a NCIB as the Company believed that its shares have been trading in a price range that did not reflect the underlying value of the Company.

During the year ended December 31, 2015, the Company repurchased 190,200 common shares for total consideration of \$465. The excess of the consideration paid over the carrying value of the common shares of \$305 has been allocated to contributed surplus (\$111) and retained earnings (\$49).

### Substantial issuer bid (“SIB”)

On August 6, 2015, Automodular announced its intention to enter into a substantial issuer bid pursuant to which the Company would offer to repurchase for cancellation up to \$15,000 in value of its outstanding common shares from shareholders. The SIB proceeded by way of a modified “Dutch auction”, which expired on September 17, 2015. A total of 5,660,377 shares were repurchased at \$2.65 per share for a total cost of \$15,236, inclusive of fees of \$236. Prior to the repurchase, these shares had a carrying value of \$12,369. The excess of the consideration paid over the carrying value has been allocated to retained earnings.

### Stated capital reduction and resolution

At the 2013 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 (“stated capital reduction”). The Company increased the contributed surplus account by an amount equivalent to the reduction of stated capital.

In conjunction with the substantial issuer bid, the Board of Directors announced the reversal of the remaining 2014 stated capital reduction balance, thereby increasing the stated capital account by \$19,268 (“stated capital resolution”).

### 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 2015 or 2014.

## Dividends

In the years ended December 31, 2015 and 2014, dividends totalling \$nil and \$3,488, respectively, were declared and paid. Total dividends paid during the 2014 fiscal year were \$0.18 per share.

## Weighted average common shares outstanding

	2015	2014
Weighted average issued common shares	19,378,904	19,378,904
Less: Weighted average shares cancelled under NCIB	71,913	-
Less: Weighted average shares cancelled under SIB	1,612,820	-
<b>Weighted average common shares outstanding – basic and fully diluted</b>	<b>17,694,171</b>	<b>19,378,904</b>

## 10. TAXATION

	2015	2014
	\$	\$
<b>Current income taxes:</b>		
Current income taxes on earnings for the year	(1,290)	4,552
Adjustments in respect of prior years	114	(66)
<b>Total current income taxes</b>	<b>(1,176)</b>	<b>4,486</b>
<b>Deferred income taxes:</b>		
Origination and reversal of temporary differences	503	476
<b>Total deferred income taxes</b>	<b>503</b>	<b>476</b>
<b>Income tax expense (recovery)</b>	<b>(673)</b>	<b>4,962</b>

The income taxes on the Company's earnings (loss) before income taxes differs from the theoretical amount that would arise using the weighted average income tax rate applicable to its earnings (loss) as follows:

	2015	2014
	\$	\$
<b>Earnings (loss) before income tax:</b>	<b>(3,077)</b>	<b>19,725</b>
Expected income tax expense at statutory rates	(769)	4,931
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	57	30
Allowance for amounts deemed non-realizable	47	-
Other	(8)	1
<b>Income tax expense (recovery)</b>	<b>(673)</b>	<b>4,962</b>

	December 31, 2015	December 31, 2014
	\$	\$
<b>Deferred income tax assets:</b>		
Deferred income tax assets to be realized after more than twelve months	157	632
Deferred income tax assets to be realized within twelve months	46	52
<b>Total deferred income tax assets</b>	<b>203</b>	<b>684</b>

The Company also has unrecognized Canadian capital losses of \$17.1 million available to be offset against future capital gains and cumulative eligible capital assets of \$293. No deferred income tax assets have been recognized in relation to these amounts in the consolidated statements of financial position.

As at December 31, 2015, the Company has net operating loss carry-forwards in the United States of US\$8,216 that are scheduled to expire as follows:

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

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 its US contracts, the deferred income tax assets should continue to be de-recognized. Accordingly, as at December 31, 2015 and 2014, the Company has no deferred income tax assets recognized in the consolidated statements of financial position related to these US losses.

## 11. 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:

	<b>2015 \$</b>	<b>2014 \$</b>
Salaries, directors' fees and short-term employee benefits	1,980	2,116
Severance	1,150	-
<b>Total</b>	<b>3,130</b>	<b>2,116</b>

## 12. 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.

### 13. EXPENSES BY NATURE

	2015 \$	2014 \$
Wages and employee benefits	1,099	41,659
Transportation and facility-related costs	233	9,094
Other	1,009	8,270
Depreciation	-	4,467
Exit costs	1,081	3,504
<b>Total cost of sales, exit costs and general and administrative expenses</b>	<b>3,422</b>	<b>66,994</b>



# INVESTOR INFORMATION

## COMPARATIVE DATA

	Dec. 31 2015	Dec. 31 2014	Dec. 31 2013	Dec. 31 2012	Dec. 31 2011
<b>Operations (\$000s)</b>					
Sales	-	85,761	84,613	115,953	80,400
Net earnings (loss)	(2,404)	14,763	10,363	16,780	12,235
Cash flow from operations	-	21,138	19,199	21,121	18,295
<b>Financials (\$000s)</b>					
Total assets	36,911	69,849	58,365	49,422	46,976
Shareholders' equity	36,117	54,273	43,151	40,779	33,245
Return on average shareholders' equity (%)	(5.3)	30.3	24.7	45.3	37.5
<b>Per share (\$)</b>					
Net earnings (loss)	(0.14)	0.76	0.52	0.83	0.61
Dividends paid	-	0.18	0.34	0.44	0.55
Weighted average number of shares outstanding (000s)	17,694	19,379	19,831	20,213	19,996

## QUARTERLY DATA (\$000s)

	2015				2014			
	Q1 \$	Q2 \$	Q3 \$	Q4 \$	Q1 \$	Q2 \$	Q3 \$	Q4 \$
Sales	-	-	-	-	19,549	18,772	21,294	26,146
Net earnings (loss)	(1,643)	(76)	(331)	(354)	3,160	1,571	3,726	6,306

## COMMON SHARE PRICES

### Toronto Stock Exchange/Toronto Venture Stock Exchange

Calendar year	High \$	Low \$	Volume (000s)
<b>2015</b>			
Fourth quarter	2.60	2.45	570
Third quarter	2.64	2.30	3,389
Second quarter	2.48	2.26	1,531
First quarter	2.42	2.07	1,702
<b>2014</b>			
Fourth quarter	2.21	1.95	1,636
Third quarter	2.33	2.17	1,448
Second quarter	2.35	2.13	2,061
First quarter	2.50	2.25	2,582

## CORPORATE INFORMATION

### CORPORATE OFFICE

1099 Kingston Road, Suite 214  
Pickering, ON L1V 1B5  
Tel: (905) 420-0200  
Fax: (905) 420-0800  
automodular.com  
invest@automodular.com

### AUDITORS

PricewaterhouseCoopers LLP, Toronto

### PRINCIPAL BANKERS

The Bank of Nova Scotia

### SOLICITORS

Dickinson Wright LLP, Toronto

Fasken Martineau DuMoulin,  
LLP, Toronto

### TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.  
Tel: (416) 981-9500  
Fax: (416) 981-9800  
Toll free: (800) 663-9097  
computershare.com

### OFFICERS

Christopher S. Nutt, President,  
Chief Executive Officer and Chief Financial  
Officer

Rae E. Wallin, Chairman of the Board

Christopher Dell, Vice-President,  
Business Development

Diane C. Erlingher, Corporate Secretary

### DIRECTORS

Rodney G. Hill

Parsa Kiai

R. Peter McLaughlin, Chairman of the  
Audit Committee

Christopher S. Nutt, President,  
Chief Executive Officer  
and Chief Financial Officer

Rae E. Wallin, Chairman of the Board

## ANNUAL MEETING

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD IN THE KETCHUM/OSGOODE ROOMS OF THE TORONTO REGION BOARD OF TRADE, DOWNTOWN CENTRE, 1 FIRST CANADIAN PLACE TORONTO ONTARIO ON THURSDAY MAY 5, 2016 AT 11:00 A.M.

ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.

This page intentionally left blank.



**AUTOMODULAR CORPORATION**

[www.automodular.com](http://www.automodular.com)