AUTOMODULAR CORPORATION
2016 ANNUAL REPORT

AUTOMODULAR CORPORATION

CONTENTS

FINANCIAL HIGHLIGHTS

(thousands of Canadian dollars except per share amounts)	**Year ended December 31, 2016** $	**Year ended December 31, 2015** $
Sales	-	-
Net earnings (loss)	(1,176)	(2,404)
Net earnings (loss) per share	(0.09)	(0.14)
Total assets	34,307	36,911
Shareholders' equity	33,565	36,117

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

For the Years Ended December 31, 2016 and 2015

This Management Discussion and Analysis ("MD&A") was prepared as of March 9, 2017 and should be read in conjunction with Automodular Corporation's (the "Company's") audited consolidated financial statements for the years ended December 31, 2016 and 2015, 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"). All dollar amounts are shown in Canadian dollars unless otherwise indicated. References to "Automodular" or to "the Company" refer to Automodular Corporation and its direct or indirect subsidiaries, unless the content indicates otherwise.

Automodular's operations ceased production in December 2014. Results for 2016 and 2015 reflected ongoing administrative costs and costs associated with the legal claim against General Motors Company and General Motors of Canada Ltd. ("GM litigation"). The 2015 results also included exit costs relating to the closure of the Company's Oakville facilities.

2016 OVERVIEW

Automodular reports a net loss of $(1.2) million or $(0.09) per share in the current year compared to a net loss of $(2.4) million or $(0.14) per share in 2015. The loss was lower in the current year as 2015 included some costs relating to the closure of the Company's Oakville facilities.

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 ("NCIB"). 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 terminated on April 12, 2016. Automodular initiated the 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. The Company reinitiated its NCIB in April 2016. Under the terms of the NCIB, Automodular may acquire up to 821,491 of its common shares, representing 10% of the 8,214,913 common shares comprising Automodular's public float of common shares issued and outstanding as of April 4, 2016, as defined by the policies of the TSXV. The NCIB will terminate on April 12, 2017.

During the year ended December 31, 2016, the Company repurchased 548,300 common shares for total consideration of $1.4 million.

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 related 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 was 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 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. Automodular subsequently sought and obtained a transfer of the action to the Ontario Superior Court of Justice's Commercial List which will ensure active case management of the file leading up to trial and will assist in obtaining earlier trial dates. Automodular served an expert report prepared by Errol Soriano of Duff & Phelps on February 21, 2017. Automodular will now ask the Court to set the earliest possible pre-trial dates.

There can be no assurance that the claim will be successful or that Automodular will recover any amounts from GM. In the event that Automodular is not successful in its claim against GM, it could be exposed to a claim for recovery of legal costs by GM.

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 the executive management team are still focused on finding additional opportunities to leverage their core skills. There can be no assurance that Automodular will be successful in securing organic contracts or finalizing a transaction going forward.

Dependence upon key personnel

The success of the Company is dependent on the services of its executive management team which includes the Chief Executive Officer and a Vice-President. The experience and talents of these individuals will be a significant factor in the Company's success in the GM litigation. The loss of one or both of these individuals could have a material adverse effect on the Company. The Company maintains key man life insurance on the current CEO and its 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, 2016 and 2015 are as follows:

	2016	**2015**
(thousands of Canadian dollars)	$	$
Cost of sales	(140)	(1,379)
Exit costs	-	1,081
General and administrative expense	1,828	3,720
Interest (income)	(287)	(304)
Other (income)	(4)	(41)
Earnings (loss) before income taxes:	(1,397)	(3,077)
Income taxes	(221)	(673)
Net earnings (loss) attributable to the shareholders	(1,176)	(2,404)

Cost of sales

Cost of sales for the current and prior year reflect recoveries relating to the successful mitigation of previously recognized obligations related to the Oakville operations.

Exit costs

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

Exit costs in the 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 2015 due to the rationalization of our cost structure.

Interest (income)

Interest (income) was nominally lower than in 2015 due to decreased interest income generated on lower cash balances.

Other (income)

Amounts were nominal for 2016 and 2015. The prior year included gains with respect to the sale of certain fixed assets.

Income taxes

The effective tax rate in 2016 is higher than the statutory tax rate because Automodular recorded an allowance on deferred tax assets that may not be realizable ($130).

Earnings (loss) before income taxes

As discussed previously, Automodular has no active operations.

HISTORICAL QUARTERLY DATA - ROLLING EIGHT QUARTERS

(thousands of Canadian dollars except per share amounts)

	2016					2015			
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
	$	$	$	$		$	$	$	$
Net earnings (loss)	(335)	(300)	(129)	(412)		(1,643)	(76)	(331)	(354)
Per share basic and diluted	(0.03)	(0.02)	(0.01)	(0.03)		(0.09)	(0.00)	(0.02)	(0.03)

As previously noted, results for 2016 and 2015 reflect ongoing administrative costs, costs with respect to the GM litigation and exit costs relating to the closure of the Company's Oakville facilities. The loss was larger in the first quarter of 2015 as staff had been retained to work on the closure and turnover of the Oakville facilities to the respective landlords. The quarterly loss was lower in Q2 2015 and Q3 2016 as a result of the mitigation of previously recognized obligations related to the Oakville operations. The higher quarterly loss in Q4 2016 is due to an allowance recorded on deferred tax assets as previously noted.

FOURTH QUARTER

(thousands of Canadian dollars)	2016 $	2015 $
Cost of sales	-	(360)
General and administrative expense	435	647
Interest expense (income), net	(72)	9
Other expense (income), net	-	11
Earnings (loss) before income taxes:	(363)	(307)
Income taxes	49	47
Net earnings (loss) attributable to the shareholders	**(412)**	**(354)**

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Operating activities

(thousands of Canadian dollars)	2016 $	2015 $
Net earnings (loss)	(1,176)	(2,404)
Income taxes (paid)	1,385	(1,737)
Pension contribution	(53)	(53)
Provisions	(9)	(8,959)
Items not involving current cash flows	(72)	1,294
Non-cash working capital	(221)	7,773
Net cash (used) by operating activities	**(146)**	**(4,086)**

The current year amounts reflect the ongoing administrative operations of the Company. The prior year 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

(thousands of Canadian dollars)	2016 $	2015 $
Proceeds on disposal (purchase) of plant and equipment, net	4	39
Interest received on cash and cash equivalents	287	304
Net cash provided by investing activities	**291**	**343**

Financing activities

(thousands of Canadian dollars)	2016 $	2015 $
Repurchase of shares under normal course issuer bid	(1,404)	(465)
Repurchase of shares under substantial issuer bid ("SIB")	-	(15,236)
Net cash (used) in financing activities	**(1,404)**	**(15,701)**

Use of cash in financing activities was much higher in 2015 as a result of the Substantial Issuer Bid which 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.

FINANCING RESOURCES

Automodular's cash on hand at December 31, 2016 was $33.8 million compared to $35.1 million at the end of 2015. 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 Office is contained in Note 5 of the Company's consolidated financial statements. The Plan currently shows a net accrued benefit obligation on the balance sheet of $0.1 million. However, based on the actuarial valuation for funding purposes completed on January 1, 2017 the Plan showed a deficit of $0.6 million. The difference between the amount recognized on the consolidated financial statements and the amount in the actuarial report, related to the use of differing assumptions as required under IFRS.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased from $36.1 million at December 31, 2015 to $33.6 million at December 31, 2016. The decrease is a result of the normal course issuer bid and current year loss.

OUTSTANDING SHARE DATA

(thousands of Canadian dollars except share amounts)

	December 31, 2016		December 31, 2015	
	Outstanding #	Amount $	Outstanding #	Amount $
Common shares	**12,980,027**	**28,365**	**13,528,327**	**29,563**

From December 31, 2016 to the date of this filing there has been no change in the number of shares issued and outstanding.

US SHAREHOLDER INFORMATION UPDATE

Based on results of its analysis, Automodular has concluded, for the year ending December 31, 2016, 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, 2017 and that the information will be filed on SEDAR and posted on our website at www.automodular.com.

2016 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 2016 year we reported an after tax loss of approximately $1.2 million which was a lower loss than previously forecasted in last year's MD&A due to timing matters with respect to the GM litigation. However, the loss is in line with our revised expectations disclosed in our quarterly MD&A.

As previously noted, we were successful in having the GM litigation transferred to the Commercial List. We believe this will improve the likelihood of obtaining an earlier trial date.

Our focus remains unchanged; we continue to strive to advance the GM litigation while continuing to contain costs. We also remain open to considering transactional opportunities to leverage our public company and cash balances. We will continue to repurchase shares through our current NCIB when considered prudent.

Automodular's cash expenditures for 2017 will fluctuate depending on the status of the GM litigation. Costs are expected to increase as the litigation nears trial. We will provide updates once we have more clarity on the timing of the trial.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Our significant account 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, 2016.

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 consolidate 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 2016 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, 2017 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:

<u>International Financial Reporting Standard 9, *Financial Instruments*</u>
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.

<u>International Financial Reporting Standard 15, *Revenue from Contracts with Customers*</u>
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. This 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 does not expect the standard to have any impact on the Company's consolidated financial statements.

<u>International Financial Reporting Standard 16, *Leases*</u>
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") upon filing of the Company's Consolidated Financial Statements. 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 certifies 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 52-109FV1) and concluded, as at December 31, 2016, 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 52-109FV1). 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, 2016, the Company's internal controls over financial reporting were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes to the Company's internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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, 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 needs, cover costs with respect to the GM litigation, and at the same time, still provide flexibility to fund potential new diversification initiatives;
- we will continue to repurchase shares through our current NCIB when considered prudent;
- that our focus is on moving the GM litigation forward while continuing to actively contain costs;
- we remain open to considering transactional opportunities to leverage our public company listing and cash balances;
- we believe that the transfer of the GM litigation to the Commercial List will improve the likelihood of obtaining an earlier trial date; and
- that Automodular's cash expenditures for 2017 will fluctuate depending on the status of the GM litigation. Costs are expected to increase as the litigation nears trial. We will provide updates once we have more clarity on the timing of the trial.

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 can be found on the SEDAR website at www.sedar.com.

March 9, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders. In that capacity, they have examined the consolidated financial statements for the years ended December 31, 2016 and December 31, 2015 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

Pickering, Ontario
March 9, 2017

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, 2016 and December 31, 2015 and the consolidated statements of operations, comprehensive loss, 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, 2016 and December 31, 2015 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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian dollars)	Notes	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	6	$ 33,799	$ 35,058
Other receivables	6	30	211
Income taxes recoverable	9	295	1,296
Prepaid expenses		152	143
Current assets		34,276	36,708
Deferred income taxes	3 and 9	31	203
Total assets		**$ 34,307**	**$ 36,911**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Trade payables and accrued liabilities	6	$ 592	$ 601
Provisions	3 and 7	16	25
Current liabilities		608	626
Other liabilities	5	134	168
Total liabilities		**$ 742**	**$ 794**
Total shareholders' equity		**$ 33,565**	**$ 36,117**
Total liabilities and shareholders' equity		**$ 34,307**	**$ 36,911**

On behalf of the Board of Directors

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

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

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(thousands of Canadian dollars)	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total
Balance, December 31, 2015		**$ 29,563**	**$ 705**	**$ 11**	**$ 5,838**	**$ 36,117**
Net loss		-	-	-	(1,176)	**(1,176)**
Actuarial remeasurement	5	-	-	-	28	**28**
Comprehensive loss		-	-	-	(1,148)	**(1,148)**
Shares repurchased under normal course issuer bid	8	(1,198)	-	-	(206)	**(1,404)**
Balance, December 31, 2016		**$ 28,365**	**$ 705**	**$ 11**	**$ 4,484**	**$ 33,565**

(thousands of Canadian dollars)	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total
Balance, December 31, 2014		**$ 22,969**	**$ 20,084**	**$ -**	**$ 11,220**	**$ 54,273**
Net loss		-	-	-	(2,404)	**(2,404)**
Actuarial remeasurement	5	-	-	-	(62)	**(62)**
Other comprehensive loss recycled to net earnings		-	-	11	-	**11**
Comprehensive income		-	-	11	(2,466)	**(2,455)**
Stated capital reduction	8	19,268	(19,268)	-	-	**-**
Shares repurchased under substantial issuer bid	8	(12,369)	-	-	(2,867)	**(15,236)**
Shares repurchased under normal course issuer bid	8	(305)	(111)	-	(49)	**(465)**
Balance, December 31, 2015		**$ 29,563**	**$ 705**	**$ 11**	**$ 5,838**	**$ 36,117**

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,

(thousands of Canadian dollars, except share and per share amounts)	Notes	2016	2015
Cost of sales	12	$ (140)	$ (1,379)
Exit costs	7 and 12	-	1,081
General and administrative expense	12	1,828	3,720
Interest (income)		(287)	(304)
Other (income)		(4)	(41)
Earnings (loss) before income taxes:		(1,397)	(3,077)
Current income taxes	9	(384)	(1,176)
Deferred income taxes	9	163	503
Net earnings (loss) attributable to the shareholders		**$ (1,176)**	**$ (2,404)**
Earnings (loss) per share:			
Basic and diluted	8	**$ (0.09)**	**$ (0.14)**
Weighted average common shares outstanding:			
Basic and diluted	8	13,122,386	17,694,171

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,

(thousands of Canadian dollars)	Notes	2016	2015
Net earnings (loss)		$ (1,176)	$ (2,404)
Items that may be recycled to net earnings (loss):			
Foreign currency translation		-	11
Item that will not be recycled to net earnings (loss):			
Actuarial remeasurement (net of tax $9; 2015 $(22))	5	28	(62)
Total comprehensive income (loss) attributable to the shareholders		**$ (1,148)**	**$ (2,455)**

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

AUTOMODULAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)	Notes	For the years ended December 31, 2016	2015
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss		$ (1,176)	$ (2,404)
Income taxes received (paid)	9	1,385	(1,737)
Pension contribution	5	(53)	(53)
Provisions paid	3 and 7	(9)	(8,959)
Items not involving current cash flows:			
Deferred income taxes	8	163	503
Interest (income)		(287)	(304)
(Gain) on disposal of plant and equipment		(4)	(39)
(Gain) on foreign exchange		-	(2)
Pension expense	5	56	55
Provisions expense	3 and 7	-	1,081
		75	(11,859)
Net change in non-cash working capital:			
Other receivables	6	181	13,859
Income taxes	9	(384)	(1,176)
Prepaid expenses		(9)	463
Trade payables and accrued liabilities	6	(9)	(5,373)
Net cash used by operating activities		(146)	(4,086)
INVESTING ACTIVITIES			
Interest received on cash and cash equivalents		287	304
Proceeds on disposal of plant and equipment		4	39
Net cash used by investing activities		291	343
FINANCING ACTIVITIES			
Repurchase of shares under substantial issuer bid	8	-	(15,236)
Repurchase of shares under normal course issuer bid	8	(1,404)	(465)
Net cash used by financing activities		(1,404)	(15,701)
Effect of exchange rate changes on cash		-	13
CHANGE IN CASH AND CASH EQUIVALENTS		**$ (1,259)**	**$ (19,431)**
Cash and cash equivalents, beginning of year		**$ 35,058**	**$ 54,489**
Cash and cash equivalents, end of year		**$ 33,799**	**$ 35,058**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2016 AND 2015

(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 listed on the NEX Board of the TSX Venture Exchange (the "TSXV") 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. 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 9, 2017. 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.

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 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
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.

<u>Cash and cash equivalents</u>

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.

<u>Other receivables</u>

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment. 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, payment history and any available information indicating that a customer could be experiencing liquidity problems.

<u>Trade payables and accrued liabilities</u>

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

Capital stock

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

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

Costs of sales

Historically, labour and related costs, transportation and facility-related costs, depreciation and exit costs comprised the majority of these costs. Given that operations ceased in 2014, any current costs recognized are related to the closure of the Company's facilities and recoveries of amounts previously expensed.

<u>Bonus plans</u>

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.

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, losses or impairments on investments, 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.

<u>Current income tax</u>

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

<u>Deferred income tax</u>

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

Deferred tax liabilities

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

Deferred tax assets

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

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination, that at the time of the transaction, affects neither accounting nor taxable net earnings.

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, 2016. The effect of market interest rate fluctuations (all other variables held constant) for the year ended December 31, 2016 is as follows:

	+100 bps	**-100 bps**
Increase (decrease) in interest (income)	344	(287)
Increase (decrease) in earnings before income taxes	**344**	**(287)**

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 other receivables.

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

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.

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

Deferred income tax assets and liabilities

Deferred income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. To the extent that management does not consider it to be probable that a deferred tax asset will be realized, the deferred tax asset will be de-recognized. The Company considers the amount to recognize and derecognize 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 $31. See Note 9 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 have been calculated based on the specific terms of the commercial extension agreement with Ford.

See Note 7 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, 2017 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 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. This 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 does not expect the standard to have any 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. 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 31st of each year and as such, updates the detailed information in its annual report. The Company expenses an amount based on the amount calculated by the actuary using assumptions as described below. The expense was $56 (2014 - $55). Included in other comprehensive income (loss) for the current year is $28 related to unrealized actuarial gains net of taxes (2015 - $62 unrealized actuarial losses net of taxes).

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

	December 31, 2016 $	December 31, 2015 $
Accrued benefit obligation	2,893	2,886
Fair value of Plan assets	2,759	2,718
Net accrued benefit asset (obligation)	**(134)**	**(168)**

The movement in the accrued benefit obligation is as follows:

	2016 $	2015 $
At January 1	2,886	2,942
Interest cost	106	108
Actuarial loss (gain) – economic discount rate	-	-
Actuarial loss – demographic	-	-
Actuarial loss – experience adjustment	79	14
Benefit payments	(178)	(178)
At December 31	**2,893**	**2,886**

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

	2016 $	2015 $
At January 1	2,718	2,860
Actual return on Plan assets	166	(17)
Employer contributions	53	53
Benefit payments	(178)	(178)
At December 31	**2,759**	**2,718**

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

	2016 $	2015 $
Pension expense, included in general and administrative expenses	56	55

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 2016 consists of equities and fixed income investments. The pension plan is not exposed to significant foreign currency risk.

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

	+50 bps	-50 bps
Effect on the net accrued benefit asset (obligation)	166	(185)

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

Based on the actuarial valuation completed as of January 1, 2017, there were no additional funding contributions required. The next triennial valuation for the Plan is due to be completed as of January 1, 2020.

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

	$
Within one year	176
Between one and five years	680
Over five years	3,286
Total	**4,142**

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

	2016	2015
Discount rate	3.7%	3.8%

Invested Plan assets (excluding the $1,234 of assets held in the refundable tax account (2015 - $1,258)) are composed of:

	December 31, 2016	December 31, 2015
Fixed income	36%	41%
Canadian equity	53%	47%
US equity	5%	6%
International equity	6%	6%

6. FINANCIAL INSTRUMENTS BY CATEGORY

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

Loans and receivables:

	December 31, 2016 $	December 31, 2015 $
Assets		
Cash and cash equivalents	33,799	35,058
Other receivables	30	211
Total	**33,829**	**35,269**

Financial liabilities at amortized cost:

	December 31, 2016 $	December 31, 2015 $
Liabilities		
Trade payables and accrued liabilities	592	601
Total	**592**	**601**

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

7. PROVISIONS AND EXIT COSTS

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 $
Balance, January 1, 2015	**4,167**	**668**	**1,177**	**1,891**	**7,903**
Expenses	2,403	(126)	44	(1,240)	1,081
Payments	(6,545)	(542)	(1,221)	(651)	(8,959)
Balance, December 31, 2015	**25**	**-**	**-**	**-**	**25**
Expenses	-	-	-	-	-
Payments	(9)	-	-	-	(9)
Balance, December 31, 2016	**16**	**-**	**-**	**-**	**16**

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 have been included in the consolidated statement of operations net of the cost recoveries from Ford.

8. CAPITAL STOCK

Authorized:
Unlimited number of common shares (no par value).

	Number of shares	Amount $
Issued and outstanding common shares – January 1, 2015	**19,378,904**	**22,969**
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
Issued and outstanding common shares – December 31, 2015	**13,528,327**	**29,563**
Shares cancelled under the normal course issuer bid	(548,300)	(1,198)
Issued and outstanding common shares – December 31, 2016	**12,980,027**	**28,365**

There were no new common shares issued in the 2016 and 2015 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 terminated on April 12, 2016. 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. The Company reinitiated its NCIB in April of 2016. Under the terms of the NCIB, Automodular may acquire up to 821,491 of its common shares, representing 10% of the 8,214,913 common shares comprising Automodular's public float of common shares issued and outstanding as of April 4, 2016, as defined by the policies of the TSXV. The NCIB will terminate on April 12, 2017.

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).

During the year ended December 31, 2016, the Company repurchased 548,300 common shares for total consideration of $1,404. The excess of the consideration paid over the carrying value of the common shares of $1,198 has been allocated to retained earnings ($206).

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 $15,175, inclusive of fees of $175 net of taxes. 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 resolution

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 2016 or 2015.

Dividends

In the years ended December 31, 2016 and 2015, the Company did not declare dividends.

Weighted average common shares outstanding

	2016	2015
Weighted average issued common shares	13,528,327	19,378,904
Less: Weighted average shares cancelled under NCIB	405,941	71,913
Less: Weighted average shares cancelled under SIB	-	1,612,820
Weighted average common shares outstanding – basic and fully diluted	**13,122,386**	**17,694,171**

9. TAXATION

	2016 $	2015 $
Current income taxes:		
Current income taxes on earnings for the year	(384)	(1,290)
Adjustments in respect of prior years	-	114
Total current income taxes	**(384)**	**(1,176)**
Deferred income taxes:		
Origination and reversal of temporary differences	163	503
Total deferred income taxes	**163**	**503**
Income tax expense (recovery)	**(221)**	**(673)**

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

	2016 $	2015 $
Earnings (loss) before income tax:	(1,397)	(3,077)
Expected income tax expense at statutory rates	(349)	(769)
Increase (decrease) resulting from:		
Non-deductible/non-taxable items	2	57
Allowance for amounts deemed non-realizable	130	47
Other	(4)	(8)
Income tax expense (recovery)	**(221)**	**(673)**

	December 31, 2016 $	December 31, 2015 $
Deferred income tax assets:		
Deferred income tax assets to be realized after more than twelve months	-	157
Deferred income tax assets to be realized within twelve months	31	46
Total deferred income tax assets	**31**	**203**

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

As at December 31, 2016, the Company has net operating loss carry-forwards in the United States of US$8,216 that are scheduled to expire as follows:

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

The Company assessed whether it should continue to de-recognize the related US deferred income tax assets based on the consideration of all available evidence using a probability threshold, which is generally understood to be greater than 50%. The factors the Company used to assess the probability of realization were its forecast of future US taxable income and available tax planning strategies that could be implemented to realize the deferred income tax assets. The Company determined that as a result of the prior expiration of its US contracts, the deferred income tax assets should continue to be de-recognized. Accordingly, as at December 31, 2016 and 2015, the Company has no deferred income tax assets recognized in the consolidated statements of financial position related to these US losses.

10. 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:

	2016 $	2015 $
Salaries, directors' fees and short-term employee benefits	1,092	1,980
Severance	-	1,150
Total	**1,092**	**3,130**

11. 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.

12. EXPENSES BY NATURE

	2016 $	2015 $
Wages and employee benefits	893	1,099
Other	795	1,242
Exit costs	-	1,081
Total cost of sales, exit costs and general and administrative expenses	**1,688**	**3,422**

INVESTOR INFORMATION

COMPARATIVE DATA

	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014	Dec. 31 2013	Dec. 31 2012
Operations ($000s)					
Sales	-	-	85,761	84,613	115,953
Net earnings (loss)	(1,176)	(2,404)	14,763	10,363	16,780
Financials ($000s)					
Total assets	34,307	36,911	69,849	58,365	49,422
Shareholders' equity	33,565	36,117	54,273	43,151	40,779
Return on average shareholders' equity (%)	(3.4)	(5.3)	30.3	24.7	45.3
Per share ($)					
Net earnings (loss)	(0.09)	(0.14)	0.76	0.52	0.83
Weighted average number of shares outstanding (000s)	13,122	17,694	19,379	19,831	20,213
Dividends paid	-	-	0.18	0.34	0.44

QUARTERLY DATA ($000s)

	2016				2015			
	Q1 $	Q2 $	Q3 $	Q4 $	Q1 $	Q2 $	Q3 $	Q4 $
Net earnings (loss)	(335)	(300)	(129)	(412)	(1,643)	(76)	(331)	(354)

COMMON SHARE PRICES

Toronto Stock Exchange/Toronto Venture Stock Exchange

Calendar year	High $	Low $	Volume (000s)
2016			
Fourth quarter	2.51	2.38	158
Third quarter	2.56	2.46	192
Second quarter	2.64	2.31	457
First quarter	2.74	2.45	646
2015			
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

CORPORATE INFORMATION

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The Bank of Nova Scotia

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OFFICERS

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

Christopher Dell, Vice-President, Business Development

Rae E. Wallin, Chairman of the Board

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 AT THE OFFICES OF FASKEN MARTINEAU DUMOULIN, LLP, BAY ADELAIDE CENTRE, 333 BAY STREET, SUITE 2400, TORONTO, ONTARIO ON TUESDAY, MAY 9, 2017 AT 1:00 P.M.

ALL SHAREHOLDERS ARE ENCOURAGED TO ATTEND.

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AUTOMODULAR CORPORATION

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