MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2018

MESSAGE TO SHAREHOLDERS

Welcome to 2019, a year which we look forward to with great anticipation, as we intend to continue to develop and apply our One Martinrea culture in our business, with a view to increasing year over year revenues, profits and operating margins, continuing to improve our leading safety and quality metrics, delighting our customers, providing meaningful work and job satisfaction to our employees, performing for our shareholders and leading the way in good corporate citizenship in our communities. Even in a challenging environment in terms of some of the geopolitical, trade and economic issues we all face. In sum, we will continue to perform well, as we did in 2018, and in the years before that.

The year 2018 was a year of highlights for Martinrea, and let's summarize some of them:

We recorded revenues of $3.66 billion, similar to 2017 revenues. Excluding a change in certain customer contracts in 2017, moving from a pass through model to a value added model, our business increased year over year.

For the tenth year in a row, we improved earnings, and achieved a record earnings performance in 2018, with adjusted net earnings of approximately $193 million, up 17% from last year, or fully diluted adjusted net earnings per share of $2.22, the best EPS performance in our history.

Our adjusted operating income margins increased to 7.8% for the year, up from 6.4% last year, 5% in 2016, 4.6% in 2015 and 4.1% in 2014. We more than met our 2017 target of 6% by the end of 2017, and we are well on our way to meeting our 8% target by 2019 with a strong year in 2018. Not only have these margins increased steadily, our operating margins have been increasing at a faster rate than virtually any other company in the sector. On an absolute basis, our operating margins are now higher than many of our direct competitors in the areas in which we compete and in terms of general automotive parts suppliers.

Once again, we achieved record adjusted EBITDA performance in 2018, of $461 million, up from $401 million in 2017, a 15% increase year over year. Our company is becoming a significant cash flow generator, and we will see increasing free cash flow this year and going forward.

Our balance sheet remains very strong, and we ended 2018 with a net debt:adjusted EBITDA ratio at 1.45:1, about the same as at the end of 2017, despite an increased dividend and significant share repurchases in 2018. We also renewed and expanded our credit facilities with our banking syndicate, giving us a record level of liquidity to finance our growth and investments.

We returned significant cash to our shareholders in 2018. We increased the dividend by 50% in early 2018 and we commenced a normal course issuer bid in the third quarter. By year end we had repurchased approximately 2.5% of our outstanding common shares, returning approximately $40 million to shareholders, inclusive of our dividend.

We continued to focus on improving our safety metrics, as we look to provide our employees with a safe work environment. Overall, we are significantly better than industry average, covering our customers and other parts manufacturers. Our internal objective was to be in the top quartile of our industry for safety performance, and now it is to be in the top decile. We will get there. Our ultimate goal is to be the industry leader. We note that this has been a journey for many of our plants, which we bought while they were in financial distress and safety was not good.

Quality is critical for us, and 2018 was a year in which we continued to receive multiple quality awards from multiple customers. We have also received supplier diversity awards.

2018 saw a year of heavy launch activity, which went very well for us.

We quoted much new business, and achieved new business awards with approximately $600 million in annualized revenue in 2018, a record year for us. This work will launch over the next three years and will support revenue growth for us.

We made a strategic investment in a graphene producing company, NanoXplore Inc., which we are very excited about. Graphene is a wonderful material with huge lightweighting possibilities generally and for our applications.

We have renewed our sales and marketing strategy to take advantage of opportunities created because of current lightweighting and electrification trends and also our capabilities to build systems, launched to our customers in early 2019 but developed internally in 2018. In addition to our historical portfolio of products and capabilities, we will be delivering lightweight structures and propulsion systems using advanced materials in steel, aluminum, or a combination, as well as other materials.

We had a record year despite some of the industry headwinds and the broader geopolitical, trade and economic environment.

In terms of the industry, volumes were fairly flat across our markets, and the times of robust year over year growth may be over, at least in some areas. Nevertheless, volumes are at a very healthy level today. And our product offerings are essential to our customers. Every vehicle needs structure for safety reasons, and we provide that. Every vehicle benefits from the lightweighting of products that we specialize in, whether an electric vehicle, one propelled by gasoline or diesel, or one propelled by something else. Lightweight products reduce emissions, increase distance on a tank of gas or an electric charge, reduce greenhouse gas emissions somewhere, and so on. Our new business wins are a testament to the needs of our products. They include battery trays and propulsion products for electric and hybrid vehicles. Our propulsion systems products are mission critical for this industry. In sum, we believe we are positioned to be in a very good place.

In addition to the usual industry challenges, in 2018 we dealt with, and are continuing to deal with, some broader issues. For example, in the area of trade, we are pleased with the signing, and hopefully pending ratification, of the USMCA, as the updated form of NAFTA is generally termed. We were very busy with a variety of governments and industry participants in the negotiations, and we believe the signed agreement is a good one, with some potential opportunities for North American suppliers such as ourselves because of the North American rules of origin provisions. We had to deal with the imposition of steel and aluminum tariffs by the United States, and the retaliatory tariffs imposed by Canada. We are advocating for their removal in 2019, but we do note that the direct impact to us, either initially or because of relief sought and obtained, is minimal. We believe we have had the opportunity to be part of the conversation and that, in the final analysis, we will end up with a very healthy North American automotive and automotive parts industry. In terms of broader tariff and trade discussions, involving the United States, China and others, we believe there will eventually be a resolution that works for the industry. Martinrea has a small presence in China, but there is opportunity there if the risks can be addressed.

On a positive note, challenges present opportunities to nimble, entrepreneurial, lean and resilient companies with great people, and we believe we have shown an ability to take advantage of opportunities over the

years. In 2001, we were not an automotive parts supplier, and we became one just before 9/11. For the next seven years there were many challenges in the industry, as it saw many insolvencies and restructurings, and we grew and bought distressed assets at good prices—that we needed to fix. Then came the Great Recession, which was not fun, but we came out of that with more assets and a full footprint. Since that time, in the recovery, we have continued to improve, and especially since 2014 when we launched our Martinrea 2.0 initiatives, all resulting in the improving financial, safety, quality and other metrics shown by our 2018 results. We get stronger through meeting challenges well. Bring it on!

We talk about culture a lot at Martinrea. Why? Because it matters. It matters a lot. It matters to us, but most importantly, it matters to our people here at Martinrea. Just last week we reviewed the results of our employee surveys, and 91% of our employees, worldwide, reported that they know our vision, mission and principles! That is a telling statistic. The employees were from 45 plants and two major corporate offices in eight countries on four continents, and included recent hires and those who have been with us for many years. Our culture is having a profound impact on our company and our people, and on us. So we take it very seriously. Peter Drucker once said culture eats strategy for breakfast. And we think he is right.

So, we come to maybe the biggest highlight for us from 2018, and that is our development of culture. Working with our people at the leadership level and in other areas of our company, we updated our vision, which has been simplified and shortened to the following: Making lives better by being the best supplier we can be in the products we make and the services we provide. Our people need a why, and that's a "why" vision. Our mission was updated to Making People's Lives Better by: (i) Delivering outstanding quality products and services to our customers; (ii) Providing meaningful opportunity, job satisfaction and job security for our people; (iii) Providing superior long term investment returns to our stakeholders; and (iv) Being positive contributors to our communities. And our Ten Guiding Principles remain the same:

1. We make great, high quality products
2. Every location must be a centre of excellence
3. Discipline is key
4. We attract, train and work with excellent people, and we motivate our people to perform well
5. We are a team
6. Challenges make us better
7. Think differently
8. Work hard, play hard
9. The Golden Rule – Treat everyone with dignity and respect
10. Our leadership team has to drive these messages consistently and simply.

We don't stop with the Vision, Mission and Ten Guiding Principles, not any longer. In 2018, we articulated, in a cohesive yet simple way, our company culture, comprised of entrepreneurship, lean manufacturing principles and the Golden Rule philosophy core to our Ten Guiding Principles, as demonstrated in a picture.

MAKING PEOPLE'S LIVES BETTER

The Company has been entrepreneurial in nature since inception, a company that has embraced characteristics of encouraging executives, general managers and all employees to act and think like an owner with a stake in the enterprise; supporting a can do attitude; promoting an ability and willingness to urgently get things done; acting to avoid unnecessary bureaucracy; developing an ability to learn from mistakes openly and constructively; and the trust of working in a team. As a Company, we embrace new initiatives every day, and we focus on new products, new technologies, new locations and new ways of doing things consistently.

The Company embraces lean thinking as part of its culture too. Simply stated, the lean thinking way is a focus on eliminating waste in all aspects of the Company's business and operations. The elimination of waste allows us to take out unnecessary cost, thereby making us competitive. It enables us to see problems that we can fix in our operations more easily. It allows us to simplify processes so that we can have safer, cleaner, more efficient and more sustainable workplaces. It is a culture of continuous improvement in whatever we do.

At the core of our One Martinrea culture is a Golden Rule philosophy, based on treating others the way we want to be treated, with dignity and respect, but more also. It means following our Ten Guiding Principles in our business and operations, and in how we deal with our customers, employees, suppliers, stakeholders (lenders and shareholders) and our communities. Being lean or being entrepreneurial is not enough. These cultural elements overlap but are tied together with our Golden Rule approach. We make people's lives better in what we do, and we can only do that with a service oriented approach to our work and our colleagues at work, and all those who we deal with in our work.

At Martinrea, we believe that our culture is and will be a sustainable competitive advantage for the Company over the long term, and we believe it has driven the improving financial, safety, and quality performance over the past several years.

We don't profess to understand the stock market or how investors make their decisions, and frankly we are not sure we are alone in that. But we do believe one thing. Sustainable companies with great cultures will be around for a long time. We believe we have a company poised to excel over the next decade and beyond, and we, and our people, are committed to that.

We thank all our stakeholders for their support! We will continue to do our best for you in 2019 and beyond. The future is there for us to seize.

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

(Signed) *"Pat D'Eramo"*

Pat D'Eramo
President and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the Year ended December 31, 2018

The following management discussion and analysis ("MD&A") was prepared as of February 28, 2019 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company's Annual Information Form for the year ended December 31, 2018, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs approximately 15,000 skilled and motivated people in 45 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea's vision is to make lives better by being the best supplier we can be in the products we make and the services we provide. The Company's mission is to make people's lives better by: delivering outstanding quality products and services to our customers; providing meaningful opportunity, job satisfaction, and job security to our people through competitiveness and prudent growth; being positive contributors to our communities; and providing superior long-term investment returns to our stakeholders.

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company's disclosures that it believes provide the most appropriate basis on which to evaluate the Company's results.

OVERALL RESULTS

The following tables set out certain highlights of the Company's performance for the years ended December 31, 2018 and 2017. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2018 for a detailed account of the Company's performance for the periods presented in the tables below.

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Sales	$ 3,662,900	$ 3,690,499	(27,599)	(0.7%)
Gross Margin	556,161	484,601	71,560	14.8%
Operating Income	276,472	246,624	29,848	12.1%
Net Income for the period	185,883	159,266	26,617	16.7%
Net Income Attributable to Equity Holders of the Company	$ 185,883	$ 159,543	26,340	16.5%
Net Earnings per Share - Basic	$ 2.15	$ 1.84	0.31	16.8%
Net Earnings per Share - Diluted	$ 2.14	$ 1.84	0.30	16.3%
Non-IFRS Measures*				
Adjusted Operating Income	$ 283,981	$ 236,807	47,174	19.9%
% of Sales	*7.8%*	*6.4%*		
Adjusted EBITDA	461,223	401,493	59,730	14.9%
% of Sales	*12.6%*	*10.9%*		
Adjusted Net Income Attributable to Equity Holders of the Company	193,166	165,519	27,647	16.7%
Adjusted Net Earnings per Share - Basic	$ 2.23	$ 1.91	0.32	16.8%
Adjusted Net Earnings per Share - Diluted	$ 2.22	$ 1.91	0.31	16.2%

The following table sets out a detailed account of the Company's performance for the fourth quarters of 2018 and 2017 (unaudited).

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Sales	$	926,154	$	878,642	47,512	5.4%
Cost of sales (excluding depreciation)		(751,605)		(716,927)	(34,678)	4.8%
Depreciation of property, plant and equipment (production)		(39,982)		(37,673)	(2,309)	6.1%
Gross Margin		134,567		124,042	10,525	8.5%
Research and development costs		(7,189)		(6,600)	(589)	8.9%
Selling, general and administrative		(58,363)		(52,531)	(5,832)	11.1%
Depreciation of property, plant and equipment (non-production)		(2,971)		(2,596)	(375)	14.4%
Amortization of customer contracts and relationships		(535)		(530)	(5)	0.9%
Loss on disposal of property, plant and equipment		(93)		(144)	51	(35.4%)
Impairment of assets		(5,436)		(7,488)	2,052	(27.4%)
Restructuring costs		(2,073)		-	(2,073)	(100.0%)
Gain on disposal of land and building		-		13,374	(13,374)	(100.0%)
Operating Income	$	57,907	$	67,527	(9,620)	(14.2%)
Finance expense		(7,013)		(5,735)	(1,278)	22.3%
Other finance income (expense)		(389)		2,681	(3,070)	(114.5%)
Income before taxes	$	50,505	$	64,473	(13,968)	(21.7%)
Income tax expense		(12,689)		(32,107)	19,418	(60.5%)
Net Income Attributable to Equity Holders of the Company	$	37,816	$	32,366	5,450	16.8%
Net Earnings per Share - Basic and Diluted	$	0.44	$	0.37	0.07	18.9%
Non-IFRS Measures*						
Adjusted Operating Income	$	65,416	$	61,641	3,775	6.1%
% of Sales		7.1%		7.0%		
Adjusted EBITDA		111,785		105,830	5,955	5.6%
% of Sales		12.1%		12.0%		
Adjusted Net Income Attributable to Equity Holders of the Company		43,840		43,179	661	1.5%
Adjusted Net Earnings per Share - Basic and Diluted	$	0.51	$	0.50	0.01	2.0%

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company’s performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include “Adjusted Net Income”, “Adjusted Net Earnings per Share (on a basic and diluted basis)”, “Adjusted Operating Income” and "Adjusted EBITDA”.

The following tables provide a reconciliation of IFRS “Net Income Attributable to Equity Holders of the Company” to Non-IFRS “Adjusted Net Income Attributable to Equity Holders of the Company”, “Adjusted Operating Income” and “Adjusted EBITDA”.

		Three months ended December 31, 2018		Three months ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$	37,816	$	32,366
Unusual and Other Items (after-tax)*		6,024		10,813
Adjusted Net Income Attributable to Equity Holders of the Company	$	43,840	$	43,179

		Year ended December 31, 2018		Year ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$	185,883	$	159,543
Unusual and Other Items (after-tax)*		7,283		5,976
Adjusted Net Income Attributable to Equity Holders of the Company	$	193,166	$	165,519

**Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A*

		Three months ended December 31, 2018		Three months ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$	37,816	$	32,366
Income tax expense		12,689		32,107
Other finance income - excluding Unusual and Other Items*		(59)		(359)
Finance expense		7,013		5,735
Unusual and Other Items (before-tax)*		7,957		(8,208)
Adjusted Operating Income	$	65,416	$	61,641
Depreciation of property, plant and equipment		42,953		40,269
Amortization of intangible assets		3,323		3,776
Loss on disposal of property, plant and equipment		93		144
Adjusted EBITDA	$	111,785	$	105,830

		Year ended December 31, 2018		Year ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$	185,883	$	159,543
Non-controlling interest		-		(277)
Income tax expense		60,943		69,970
Other finance expense (income) - excluding Unusual and Other Items*		401		(1,442)
Finance expense		27,358		22,527
Unusual and Other Items (before-tax)*		9,396		(13,514)
Adjusted Operating Income	$	283,981	$	236,807
Depreciation of property, plant and equipment		163,298		149,670
Amortization of intangible assets		13,482		15,399
Loss (gain) on disposal of property, plant and equipment		462		(383)
Adjusted EBITDA	$	461,223	$	401,493

**Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A*

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

SALES

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
North America	$	735,876	$	674,852	61,024	9.0%
Europe		167,533		163,949	3,584	2.2%
Rest of the World		27,571		41,904	(14,333)	(34.2%)
Eliminations		(4,826)		(2,063)	(2,763)	(133.9%)
Total Sales	$	926,154	$	878,642	47,512	5.4%

The Company's consolidated sales for the fourth quarter of 2018 increased by $47.6 million or 5.4% to $926.2 million as compared to $878.6 million for the fourth quarter of 2017. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a decrease in the Rest of the World.

Sales for the fourth quarter of 2018 in the Company's North America operating segment increased by $61.0 million or 9.0% to $735.9 million from $674.9 million for the fourth quarter of 2017. The increase was due to the launch of new programs during or subsequent to the fourth quarter of 2017, including the next generation GM Silverado/Sierra and RAM pick-up trucks, and the new Chevrolet Blazer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the fourth quarter of 2018 of approximately $23.4 million as compared to the fourth quarter of 2017; and an increase in tooling sales of $18.0 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes on certain light-vehicle platforms including the Chevrolet Malibu, Ford Escape and Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the fourth quarter of 2017.

Sales for the fourth quarter of 2018 in the Company's Europe operating segment increased by $3.6 million or 2.2% to $167.5 million from $164.0 million for the fourth quarter of 2017. The increase can be attributed to the launch of new programs during or subsequent to the fourth quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.7 million increase in tooling sales; and a $2.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2017. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms.

Sales for the fourth quarter of 2018 in the Company's Rest of the World operating segment decreased by $14.3 million or 34.2% to $27.6 million from $41.9 million in the fourth quarter of 2017. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; a $6.3 million decrease in tooling sales; and a $1.8 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2017. These negative factors were partially offset by the launch of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018.

Overall tooling sales increased by $16.4 million to $85.2 million for the fourth quarter of 2018 from $68.8 million for the fourth quarter of 2017.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
North America	$ 2,827,527	$ 2,913,786	(86,259)	(3.0%)
Europe	713,861	657,029	56,832	8.6%
Rest of the World	135,322	132,067	3,255	2.5%
Eliminations	(13,810)	(12,383)	(1,427)	11.5%
Total Sales	$ 3,662,900	$ 3,690,499	(27,599)	(0.7%)

The Company's consolidated sales for the year ended December 31, 2018 decreased by $27.6 million or 0.7% to $3,662.9 million as compared to $3,690.5 million for the year ended December 31, 2017. The total decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2018 in the Company's North America operating segment decreased by $86.3 million or 3.0% to $2,827.5 million from $2,913.8 million for the year ended December 31, 2017. The decrease was due to lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chevrolet Malibu, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the year ended December 31, 2017 such as the previous version of the GM Equinox/Terrain; and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2018 of approximately $21.1 million as compared to the corresponding period of 2017. These negative factors were partially offset by the launch of new programs during or subsequent to the year ended December 31, 2017, including the next generation GM Equinox/Terrain, GM Silverado/Sierra and RAM pick-up trucks, and the new Chevrolet Blazer; and an increase in tooling sales of $39.7 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the year ended December 31, 2018 in the Company's Europe operating segment increased by $56.9 million or 8.6% to $713.9 million from $657.0 million for the year ended December 31, 2017. The increase can be attributed to the launch of new programs during

or subsequent to the year ended December 31, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2018 of approximately $30.1 million as compared to the corresponding period of 2017; and a $13.9 million increase in tooling sales. These factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms and the Ford Mondeo in Europe.

Sales for the year ended December 31, 2018 in the Company's Rest of the World operating segment increased by $3.2 million or 2.5% to $135.3 million from $132.1 million for the year ended December 31, 2017. The increase was due to the launch of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018; higher year-over-year production sales in the Company's operating facility in Brazil; and a $4.7 million increase in tooling sales. These negative factors were partially offset by lower year-over-year production volumes on the Ford Mondeo platform in China, and a $5.3 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to corresponding period of 2017.

Overall tooling sales increased by $58.3 million to $269.2 million for the year ended December 31, 2018 from $210.9 million for the year ended December 31, 2017.

GROSS MARGIN

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Gross margin	$ 134,567	$ 124,042	10,525	8.5%
% of Sales	14.5%	14.1%		

The gross margin percentage for the fourth quarter of 2018 of 14.5% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the fourth quarter of 2017 of 14.1%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, higher tariffs on steel, and an increase in tooling sales which typically earn low margins for the Company.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Gross margin	$ 556,161	$ 484,601	71,560	14.8%
% of Sales	15.2%	13.1%		

The gross margin percentage for the year ended December 31, 2018 of 15.2% increased as a percentage of sales by 2.1% as compared to the gross margin percentage for the year ended December 31, 2017 of 13.1%. Consistent with the year-over-year increase in the fourth quarter of 2018 as explained above, the increase in gross margin for the year ended December 31, 2018, as a percentage of sales, was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, higher tariffs on steel, and an increase in tooling sales which typically earn low margins for the Company.

SELLING, GENERAL & ADMINISTRATIVE ("SG&A")

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Selling, general & administrative	$	58,363	$	52,531	5,832	11.1%
% of Sales		6.3%		6.0%		

SG&A expense for the fourth quarter of 2018 increased by $5.8 million to $58.4 million as compared to $52.5 million for the fourth quarter of 2017. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, an increase in outbound freight costs, and higher year-over-year incentive compensation based on the performance of the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

		Year ended December 31, 2018		Year ended December 31, 2017	$ Change	% Change
Selling, general & administrative	$	232,313	$	211,533	20,780	9.8%
% of Sales		6.3%		5.7%		

SG&A expense for the year ended December 31, 2018 increased by $20.8 million to $232.3 million as compared to $211.5 million for the year ended December 31, 2017. Excluding the unusual and other item recorded in SG&A expense incurred during the year ended December 31, 2017, as explained in Table B under “Adjustments to Net Income”, SG&A expense for year ended December 31, 2018 increased by $22.5 million to $232.3 from $209.8 million for the comparative period of 2017. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, higher year-over-year incentive compensation based on the performance of the business, an increase in outbound freight costs, and higher year-over-year leasing costs as a result of the sale-leaseback transactions completed in 2017; partially offset by lower litigation costs related to certain employee related matters in the Company’s operating facility in Brazil.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT ("PP&E") AND AMORTIZATION OF INTANGIBLE ASSETS

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Depreciation of PP&E (production)	$	39,982	$	37,673	2,309	6.1%
Depreciation of PP&E (non-production)		2,971		2,596	375	14.4%
Amortization of customer contracts and relationships		535		530	5	0.9%
Amortization of development costs		2,788		3,246	(458)	(14.1%)
Total depreciation and amortization	$	46,276	$	44,045	2,231	5.1%

Total depreciation and amortization expense for the fourth quarter of 2018 increased by $2.3 million to $46.3 million as compared to $44.0 million for the fourth quarter of 2017. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base connected to both new and replacement business that commenced during or subsequent to the fourth quarter of 2017.

A significant portion of the Company’s recent investments relates to various new and replacement programs that commenced during or subsequent to the fourth quarter of 2017 and new and replacement programs scheduled to launch over the next two to three years in all of the Company’s various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Despite the year-over-year increase, depreciation of PP&E (production) expense as a percentage of sales for the fourth quarter of 2018 remained consistent year-over-year at 4.3% due to higher year-over-year sales as previously discussed.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Depreciation of PP&E (production)	$ 152,597	$ 140,018	12,579	9.0%
Depreciation of PP&E (non-production)	10,701	9,652	1,049	10.9%
Amortization of customer contracts and relationships	2,140	2,162	(22)	(1.0%)
Amortization of development costs	11,342	13,237	(1,895)	(14.3%)
Total depreciation and amortization	$ 176,780	$ 165,069	11,711	7.1%

Total depreciation and amortization expense for the year ended December 31, 2018 increased by $11.7 million to $176.8 million as compared to $165.1 million for the year ended December 31, 2017. Consistent with the year-over-year increase in the fourth quarter of 2018 as explained above, the increase in total depreciation and amortization expense for the year ended December 31, 2018 was primarily due to an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the year ended December 31, 2017.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 4.2% for the year ended December 31, 2018 from 3.8% for the year ended December 31, 2017 due to lower year-over-year sales as previously discussed, and recent investments put into production.

ADJUSTMENTS TO NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

Adjusted Net Income excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

TABLE A

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	For the three months ended December 31, 2018 (a)	For the three months ended December 31, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$37,816**	**$32,366**	**$5,450**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (1)	448	(2,322)	2,770
Impairment of assets (2)	5,436	7,488	(2,052)
Restructuring costs (3)	2,073	-	2,073
Gain on sale of land and building (4)	-	(13,374)	13,374
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$7,957**	**($8,208)**	**$16,165**
Tax impact of above items	(1,933)	(292)	(1,641)
Impact of US tax reforms on deferred tax asset (6)	-	19,313	(19,313)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$6,024**	**$10,813**	**($4,789)**
ADJUSTED NET INCOME (A + B)	**$43,840**	**$43,179**	**$661**
Number of Shares Outstanding – Basic (‘000)	85,829	86,593	
Adjusted Basic Net Earnings Per Share	$0.51	$0.50	
Number of Shares Outstanding – Diluted (‘000)	86,032	87,101	
Adjusted Diluted Net Earnings Per Share	$0.51	$0.50	

TABLE B

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	For the year ended December 31, 2018 (a)	For the year ended December 31, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$185,883**	**$159,543**	**$26,340**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (1)	1,887	(3,697)	5,584
Impairment of assets (2)	5,436	7,488	(2,052)
Restructuring costs (3)	2,073	-	2,073
Gain on sale of land and building (4)	-	(19,072)	19,072
Executive separation agreement (5)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$9,396**	**($13,514)**	**$22,910**
Tax impact of above items	(2,113)	177	(2,290)
Impact of US tax reforms on deferred tax asset (6)	-	19,313	(19,313)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$7,283**	**$5,976**	**$1,307**
ADJUSTED NET INCOME (A + B)	**$193,166**	**$165,519**	**$27,647**
Number of Shares Outstanding – Basic (‘000)	86,549	86,527	
Adjusted Basic Net Earnings Per Share	$2.23	$1.91	
Number of Shares Outstanding – Diluted (‘000)	86,988	86,779	
Adjusted Diluted Net Earnings Per Share	$2.22	$1.91	

(1) Unrealized loss (gain) on derivative instruments

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. (“NanoXplore”), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering (the investment is further described in note 7 of the consolidated financial statements and later on in this MD&A under the section “Investments”). As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period with the change in fair value recorded through profit or loss.

As at December 31, 2018, the warrants had a fair value of $2.2 million. Based on the fair value of the warrants as at December 31, 2018, an unrealized loss of $1.9 million was recognized for the year ended December 31, 2018, of which $0.4 million was recognized in the fourth quarter in other finance income. This unrealized loss has been added back for Adjusted Net Income purposes.

As at December 31, 2017, the warrants had a fair value of $4.0 million. Based on the fair value of the warrants of December 31, 2017, an unrealized gain of $3.7 million was recognized for the year ended December 31, 2017, of which $2.3 million was recognized in the fourth quarter in other finance income. This unrealized gain has been added back for Adjusted Net Income purposes.

(2) Impairment of assets

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it will be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant, equipment totaling $5.4 million related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company will be forced to close because the operation is entirely dependent on GM's facility in Oshawa. The impairment charge was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

During the fourth quarter of 2017, in conjunction with the Company's annual business planning cycle, the Company recorded an impairment charge on PP&E of $7.5 million. The impairment charge related to specific equipment at an operating facility in Canada included in the North America operating segment.

(3) Restructuring costs

Additions to the restructuring accrual during 2018 totaled $2.1 million and represent expected employee-related severance payouts and lease termination costs resulting from the planned closure of the facility in Ajax, Ontario, as described above.

(4) Gain on sale of land and building

During the fourth quarter of 2017, the Company finalized and closed a sale-leaseback arrangement involving the land and building of two of its operating facilities in the Greater Toronto Area. The assets were sold for net proceeds of $31.0 million (net of closing costs of $0.5 million) resulting in a pre-tax gain of $13.4 million. The corresponding leaseback of the assets is for a term of ten years at market rates.

During the first quarter of 2017, in connection with the relocation of an existing operation to another manufacturing facility, a building owned by the Company in Mississauga, Ontario was sold on an "as-is, where-is" basis. The building was sold for proceeds of $9.9 million (net of closing costs of $0.4 million) resulting in a pre-tax gain of $5.7 million.

(5) Executive separation agreement

During the third quarter of 2017, David Rashid ceased to be an Executive Vice President of Operations of the Company. The costs added back for Adjusted Net Income purposes represents Mr. Rashid's termination benefits (included in SG&A expense) as set out in his employment contract payable over a twelve-month period.

(6) Impact of US tax reforms on deferred tax asset

Extensive changes to the US tax system were enacted on December 22, 2017, which, among other changes, substantially reduced the US federal corporate tax rate from 35% to 21% with effect from January 1, 2018. As a result of this change, the Company's deferred tax asset in the US decreased as at December 31, 2017 with a corresponding one-time, non-cash increase in income tax expense of $19.3 million.

NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Net Income	$ 37,816	$ 32,366	5,450	16.8%
Adjusted Net Income	$ 43,840	$ 43,179	661	1.5%
Net Earnings per Share				
Basic and Diluted	$ 0.44	$ 0.37		
Adjusted Net Earnings per Share				
Basic and Diluted	$ 0.51	$ 0.50		

Net income, before adjustments, for the fourth quarter of 2018 increased by $5.4 million to $37.8 million from $32.4 million for the fourth quarter of 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the three months ended December 31, 2018 and 2017 as explained in Table A under "Adjustments to Net Income". Excluding the unusual and other items recognized during the fourth quarter of 2018, as explained in Table A under "Adjustments to Net Income", net income for the fourth quarter of 2018 increased to $43.8 million or $0.51 per share, on a basic and diluted basis, from $43.2 million or $0.50 per share, on a basic and diluted basis, for the fourth quarter of 2017.

Adjusted Net Income for the fourth quarter of 2018, as compared to the fourth quarter of 2017, was positively impacted by the following:

- higher gross profit on increased year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates;
- a net unrealized foreign exchange loss of $0.1 million for the fourth quarter of 2018 compared to a net unrealized foreign exchange gain of $0.3 million for the fourth quarter of 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (25.0% for the fourth quarter of 2018 compared to 23.3% for the fourth quarter of 2017).

Three months ended December 31, 2018 actual to guidance comparison:

On November 8, 2018, the Company provided the following guidance for the fourth quarter of 2018:

	Guidance	Actual
Production sales (in millions)	$ 820 - 860	$ 841
Adjusted Net Earnings per Share		
Basic and Diluted	$ 0.49 - 0.53	$ 0.51

For the fourth quarter of 2018, production sales of $841 million and Adjusted Net Earnings per Share of $0.51 were within the published guidance ranges provided.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Net Income	$ 185,883	$ 159,543	26,340	16.5%
Adjusted Net Income	$ 193,166	$ 165,519	27,647	16.7%
Net Earnings per Share				
Basic	$ 2.15	$ 1.84		
Diluted	$ 2.14	$ 1.84		
Adjusted Net Earnings per Share				
Basic	$ 2.23	$ 1.91		
Diluted	$ 2.22	$ 1.91		

Net Income, before adjustments, for the year ended December 31, 2018 increased by $26.3 million to $185.8 million from $159.5 million for the year ended December 31, 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the years ended December 31, 2018 and 2017 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the year ended December 31, 2018 increased to $193.2 million or $2.23 per share, on a basic basis, and $2.22 per share on a diluted basis, from $165.5 million or $1.91 per share, on a basic and diluted basis, for the year ended December 31, 2017.

Adjusted Net Income for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- a year-over-year increase in SG&A as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates;
- a net unrealized foreign exchange loss of $0.8 million for the year ended December 31, 2018 compared to a net unrealized foreign exchange gain of $1.2 million for the year ended December 31, 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.6% for the year ended December 31, 2018 compared to 23.4% for the year ended December 31, 2017).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Additions to PP&E	$ 108,011	$ 83,815	24,196	28.9%

Additions to PP&E increased by $24.2 million year-over-year to $108.0 million or 11.7% of sales in the fourth quarter of 2018 from $83.8 million or 9.5% of sales in the fourth quarter of 2017 due in large part to the timing of expenditures and new incremental investment in various sales and margin growth projects. The Company continues to make investments in the business including both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

		Year ended December 31, 2018		Year ended December 31, 2017	$ Change	% Change
Additions to PP&E	$	290,513	$	251,920	38,593	15.3%

Additions to PP&E increased by $38.6 million year-over-year to $290.5 million or 7.9% of sales for the year ended December 31, 2018 compared to $251.9 million or 6.8% of sales for the year ended December 31, 2017 due generally to new incremental investment in various sales and margin growth projects. As noted above, the Company continues to make investments in the business, including in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

SEGMENT ANALYSIS

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by the Company's chief operating decision maker, which is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented and aggregated on a geographic basis between North America, Europe and Rest of the World. The Company measures segment operating performance based on operating income.

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	SALES				OPERATING INCOME (LOSS)			
		Three months ended December 31, 2018		Three months ended December 31, 2017		Three months ended December 31, 2018		Three months ended December 31, 2017
North America	$	735,876	$	674,852	$	55,762	$	51,637
Europe		167,533		163,949		10,044		7,496
Rest of the World		27,571		41,904		(390)		2,508
Eliminations		(4,826)		(2,063)		-		-
Adjusted Operating Income		-		-	$	65,416	$	61,641
Unusual and Other Items*		-		-		(7,509)		5,886
Total	$	926,154	$	878,642	$	57,907	$	67,527

** Operating income for the operating segments has been adjusted for unusual and other items. The $7.5 million of unusual and other items for the fourth quarter of 2018 and the $5.9 million of unusual and other items for the fourth quarter of 2017 were recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

North America

Adjusted Operating Income in North America increased by $4.2 million to $55.8 million or 7.6% of sales for the fourth quarter of 2018 from $51.6 million or 7.7% of sales for the fourth quarter of 2017 due generally to a $61.0 million year-over-year increase in sales as previously explained. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2017; partially offset by operational inefficiencies and other costs at certain other facilities, including higher SG&A expenses, as previously explained, upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe increased by $2.5 million to $10.0 million or 6.0% of sales for the fourth quarter of 2018 from $7.5 million or 4.6% of sales for the fourth quarter of 2017 due to incremental margin contribution from a $3.6 million year-over-year increase in sales, and productivity and efficiency improvements at certain operating facilities, including lower upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched; partially offset by general sales mix including lower year-over-year production volumes on certain platforms. As noted previously, the year-over-year increase in sales can be attributed to the launch of new programs during or subsequent to the fourth quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.7 million increase in tooling sales; and a $2.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared

to the fourth quarter of 2017. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms.

Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year to an operating loss of $0.4 million for the fourth quarter of 2018 from operating income of $2.5 million for the fourth quarter of 2017 due mainly to lower margin contribution from a $14.3 million year-over-year decrease in sales, driven in large part by lower production volumes on the Ford Mondeo platform in China.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
North America	$ 2,827,527	$ 2,913,786	$ 236,626	$ 203,676
Europe	713,861	657,029	46,790	38,388
Rest of the World	135,322	132,067	565	(5,257)
Eliminations	(13,810)	(12,383)	-	-
Adjusted Operating Income	-	-	$ 283,981	$ 236,807
Unusual and Other Items*	-	-	(7,509)	9,817
Total	$ 3,662,900	$ 3,690,499	$ 276,472	$ 246,624

**Operating income for the operating segments has been adjusted for unusual and other items. The $7.5 million of unusual and other items incurred during the year ended December 31, 2018 and the $9.8 million benefit realized during the year ended December 31, 2017 were recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

North America

Adjusted Operating Income in North America increased by $32.9 million to $236.6 million or 8.4% of sales for the year ended December 31, 2018 from $203.7 million or 7.0% of sales for the year ended December 31, 2017 despite lower sales as previously explained. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2017; partially offset by operational inefficiencies and other costs at certain other facilities including higher SG&A expenses, as previously explained, upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe increased by $8.4 million to $46.8 million or 6.6% of sales for the year ended December 31, 2018 from $38.4 million or 5.8% for the year ended December 31, 2017 due to incremental margin contribution from a $56.8 million year-over-year increase in sales, partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and general sales mix including lower year-over-year production volumes on certain platforms. As noted previously the year-over-year increase in sales can be attributed to the launch of new programs during or subsequent to the year ended December 31, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2018 of approximately $30.1 million as compared to the corresponding period of 2017; and a $13.9 million increase in tooling sales. These factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms and the Ford Mondeo in Europe.

Rest of the World

The operating results for the Rest of the World operating segment increased year-over-year to operating income of $0.6 million for the year ended December 31, 2018 from an operating loss of $5.2 million for the year ended December 31, 2017 on slightly higher year-over-year sales as previously explained and lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil; partially offset by upfront costs incurred in the Company's China operations in preparation of upcoming new programs and related to new business in the process of being launched.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	926,154	851,136	921,710	963,900	878,642	838,535	972,772	1,000,550
Gross Margin	134,567	127,130	150,035	144,429	124,042	113,418	128,926	118,215
Net Income for the period	37,816	36,381	55,727	55,959	32,366	36,022	47,411	43,467
Net Income attributable to equity holders of the Company	37,816	36,381	55,727	55,959	32,366	36,229	47,346	43,602
Adjusted Net Income attributable to equity holders of the Company *	43,840	37,169	55,527	56,630	43,179	36,263	47,346	38,731
Basic Net Earnings per Share	0.44	0.42	0.64	0.65	0.37	0.42	0.55	0.50
Diluted Net Earnings per Share	0.44	0.42	0.64	0.64	0.37	0.42	0.55	0.50
Adjusted Basic and Diluted Net Earnings per Share *	0.51	0.43	0.64	0.65	0.50	0.42	0.55	0.45

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with IFRS. However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Please refer to the Company's previously filed annual and interim MD&A of operating results and financial position for the fiscal years 2018 and 2017 for a full reconciliation of IFRS to non-IFRS measures.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid and continues to strengthen, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at December 31, 2018, the Company had total equity of $1,151.5 million (December 31, 2017 - $958.5 million). As at December 31, 2018, the Company's ratio of current assets to current liabilities was 1.35:1 (December 31, 2017 - 1.3:1). The Company's current working capital level of $312.6 million at December 31, 2018 is up from $226.9 million at December 31, 2017 due in large part to the timing of cash inflows and outflows in relation to tooling related accounts. Credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset backed financing.

CASH FLOWS

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 110,781	$ 107,094	3,687	3.4%
Change in non-cash working capital items	(6,232)	(23,175)	16,943	(73.1%)
	104,549	83,919	20,630	24.6%
Interest paid	(8,546)	(5,543)	(3,003)	54.2%
Income taxes paid	(17,450)	(12,912)	(4,538)	35.1%
Cash provided by operating activities	78,553	65,464	13,089	20.0%
Cash used in financing activities	(956)	(10,131)	9,175	(90.6%)
Cash used in investing activities	(91,748)	(37,381)	(54,367)	145.4%
Effect of foreign exchange rate changes on cash and cash equivalents	619	776	(157)	(20.4%)
Increase (decrease) in cash and cash equivalents	$ (13,532)	$ 18,728	(32,260)	(172.3%)

Cash provided by operating activities during the fourth quarter of 2018 was $78.6 million, compared to cash provided by operating activities of $65.5 million in the corresponding period of 2017. The components for the fourth quarter of 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $110.8 million;
- working capital items use of cash of $6.2 million comprised of a decrease in trade, other payables and provisions of $38.7 million, an increase in inventories of $5.7 million, and an increase in prepaid expenses and deposits of $1.6 million; partially offset by a decrease in trade and other receivables of $39.8 million;
- interest paid (excluding capitalized interest) of $8.5 million; and
- income taxes paid of $17.5 million.

Cash used by financing activities during the fourth quarter of 2018 was $1.0 million, compared to cash used in financing activities of $10.1 million in the corresponding period in 2017, as a result of the repurchase of common shares by way of normal course issuer bid (as described in note 15 of the consolidated financial statements for the year ended December 31, 2018) of $16.6 million, and $3.9 million in dividends paid; partially offset by a $19.4 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility of $24.8 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $5.4 million).

Cash used in investing activities during the fourth quarter of 2018 was $91.7 million, compared to $37.4 million in the corresponding period in 2017. The components for the fourth quarter of 2018 primarily include the following:

- cash additions to PP&E of $88.2 million;
- capitalized development costs relating to upcoming new program launches of $4.1 million; partially offset by
- proceeds from the disposal of PP&E of $0.4 million; and
- the upfront recovery of development costs incurred of $0.1 million.

Taking into account the opening cash balance of $83.7 million at the beginning of the fourth quarter of 2018, and the activities described above, the cash and cash equivalents balance at December 31, 2018 was $70.2 million.

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 461,012	$ 406,207	54,805	13.5%
Change in non-cash working capital items	(36,752)	(26,876)	(9,876)	36.7%
	424,260	379,331	44,929	11.8%
Interest paid	(30,855)	(20,304)	(10,551)	52.0%
Income taxes paid	(96,703)	(56,166)	(40,537)	72.2%
Cash provided by operating activities	296,702	302,861	(6,159)	(2.0%)
Cash provided by (used in) financing activities	20,181	(56,915)	77,096	(135.5%)
Cash used in investing activities	(319,757)	(230,620)	(89,137)	38.7%
Effect of foreign exchange rate changes on cash and cash equivalents	1,843	(3,298)	5,141	(155.9%)
Increase (decrease) in cash and cash equivalents	$ (1,031)	$ 12,028	(13,059)	(108.6%)

Cash provided by operating activities during the year ended December 31, 2018 was $296.7 million, compared to cash provided by operating activities of $302.9 million in the corresponding period of 2017. The components for the year ended December 31, 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $461.0 million;
- working capital items use of cash of $36.8 million comprised of an increase in trade and other receivables of $7.6 million, an increase in inventories of $91.6 million, and an increase in prepaid expenses and deposits of $7.0 million; partially offset by an increase in trade, other payables and provisions of $69.4 million;
- interest paid (excluding capitalized interest) of $30.9 million; and
- income taxes paid of $96.7 million.

Cash provided by financing activities during the year ended December 31, 2018 was $20.2 million, compared to cash used of $56.9 million in the corresponding period in 2017, as a result of a $56.8 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility and new equipment loans totalling $114.5 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $57.7 million), and $1.9 million in proceeds from the exercise of employee stock options; partially offset by the repurchase of common shares by way of normal course issuer bid (as described in note 14 of the consolidated financial statements for the year ended December 31, 2018) of $25.5 million, and $13.0 million in dividends paid.

Cash used in investing activities during the year ended December 31, 2018 was $319.8 million, compared to $230.6 million in the corresponding period in 2017. The components for the year ended December 31, 2018 primarily include the following:

- cash additions to PP&E of $309.0 million;
- capitalized development costs relating to upcoming new program launches of $14.2 million;
- an investment in NanoXplore Inc. (as described in note 7 of the consolidated financial statements for the year ended December 31, 2018) of $0.7 million; partially offset by
- the upfront recovery of development costs incurred of $2.6 million; and
- proceeds from the disposal of PP&E of $1.6 million.

Taking into account the opening cash balance of $71.2 million at the beginning of 2018, and the activities described above, the cash and cash equivalents balance at December 31, 2018 was $70.2 million.

Financing

On July 23, 2018, the Company's banking facility was amended to extend its maturity date and enhance certain provisions of the facility. The primary terms of the amended facility, with now a syndicate of ten banks (up from nine), include the following:

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of $370 million and US $420 million (up from $350 million and US $400 million, respectively);
- available asset backed financing capacity of $300 million (up from $205 million);
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US $200 million (up from US $150 million);
- pricing terms at market rates and consistent with the previous facility;
- a maturity date of July 2022; and
- no mandatory repayment provisions.

As at December 31, 2018, the Company had drawn $273.0 million (December 31, 2017 - $233.0 million) on the Canadian revolving credit line and US$286.0 million (December 31, 2017 - US$256.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) increased by $87.8 million from $582.8 million at December 31, 2017 to $670.6 million at December 31, 2018 due essentially to the financing of the Company's share repurchases in 2018 under the normal course issuer bid and foreign exchange translation of the Company's foreign denominated debt to the Company's Canadian dollar reporting currency. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio remained consistent year-over-year at 1.45x at the end of both 2018 and 2017.

The Company was in compliance with its debt covenants as at December 31, 2018.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23 million ($37 million) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans at fixed annual interest rates of 3.06%, 4.34% and 4.93%.

On October 2, 2017, the Company finalized an equipment loan in the amount of $40 million repayable in monthly installments over five years at a fixed interest rate of 3.8%. The loan agreement was executed on October 2, 2017.

Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends were to be $0.12 per share, to be paid in four quarterly payments of $0.03 per share. The first quarterly dividend payment of $0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter.

Early in 2018, in view of the Company's financial performance, and its future outlook and cash needs, the Board decided to increase the annual dividends by 50% to $0.18 per share, to be paid in four quarterly installments of $0.045 per share, commencing with the release of the first quarter results of 2018. The first such increased dividend was paid on July 15, 2018. The Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to twenty-four months depending upon the duration of the tooling program. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2018, the amount of off-balance sheet program financing was $58.9 million (December 31, 2017 - $75.2 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

RISKS AND UNCERTAINTIES

The following risk factors, as well as the other information contained in this MD&A, the Company's Annual Information Form for the year ended December 31, 2018 (the "AIF) or otherwise incorporated herein by reference (including the trends described in the AIF), should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The Company's success is primarily dependent upon the levels of car and light truck production by its customers and the relative amount of content the Company has on their various vehicle programs. OEM production volumes may be impacted by many factors including general economic and political conditions, interest rates, credit availability, energy and fuel prices, international conflicts, labour relations issues, regulatory requirements, trade agreements, infrastructure considerations, legislative changes, and environmental emissions standards and safety issues.

North American and Global Economic and Political Conditions

The automotive industry is global, and is cyclical in the fact that it is sensitive to changes in economic and political conditions, including interest rates, currency issues, energy prices, trade issues, and international or domestic conflicts or political crises.

The Company operates in the midst of a volatile industry, which in the past decade has experienced a significant recession, particularly severe in North America and more recently Europe. Although there has been stabilization or growth in North America for the past decade, current conditions continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the future. While the Company believes it has sufficient liquidity and a strong balance sheet to deal with present economic conditions, lower sales and production volumes in certain areas may occur. It is unknown at this stage the impact of global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. (See "*Trade Policies and Resulting Impact (USMCA, NAFTA and the CPTPP)*" in the AIF under *"Automotive Industry General"* and "*Changes in Law and Governmental Regulation*" below.)

Consumer confidence has a significant impact on consumer demand for vehicles, which in turn impacts vehicle production. A significant decline in vehicle production volumes from current levels could have a material adverse effect on profitability.

Automotive Industry Risks

The automotive industry is generally viewed as highly cyclical. It is dependent on, among other factors, consumer spending and general economic conditions in North America and elsewhere. Future sales and production volumes are anticipated to grow modestly or stabilize in North America over the next several years, and have grown in the past several years, but growth rates are uncertain, and volume levels can decrease at any time. In Europe, the automotive industry has significant overcapacity as well as reduced sales and production levels, which can lead to downsizing and restructuring costs, or costs associated with overcapacity. Increased emphasis on the reduction of fuel consumption, fuel emissions and greenhouse gas emissions could also reduce demand for automobiles overall or specific platforms on which the Company has product, especially in the light truck segment. There can be no assurance that North American or European automotive production overall or on specific platforms will not decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of new automobiles overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants. It is unknown at this stage the impact of global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. See *"Description of the Business and Trends: Trade Policies and Resulting Impact (USMCA, NAFTA and the CPTPP)*" in the AIF and "*Changes in Law and Governmental Regulation*" below.

Dependence Upon Key Customers

Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, reduced sales of automotive platforms of such customers, or shift in market share on vehicles on which we have significant content, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. Although the Company continues to diversify its business, there is no assurance that it will be successful. In addition, a work disruption at one or more of the Company's customers, including resulting from labour stoppages at or insolvencies of key suppliers to such customers or an extended customer shutdown (scheduled or unscheduled) could have a significant impact on the Company's revenue

and/or profitability. Our largest North American customers typically halt production for approximately two weeks in July and one week in December. These typically seasonal shutdowns could cause fluctuations in the Company's quarterly results.

Financial Viability of Suppliers

The Company relies on a number of suppliers to supply a wide range of products and components required in connection with the business. Economic conditions, including trade volatility, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (fires, hurricanes, earthquakes, whether as a result of climate change or otherwise) and scarcity of raw materials can result in many automotive suppliers experiencing varying degrees of financial distress. The continued financial distress or the insolvency or bankruptcy of any such supplier could disrupt the supply of products, materials or components to Martinrea or to customers, potentially causing the temporary shut-down of the Company's or customers' production lines. Martinrea has experienced supply disruptions of varying natures in the past, including in cases where an equipment supplier has gone out of business, or an act of God resulted in the shortage of a key commodity. There is a risk some suppliers may not have adequate capacity to timely accommodate increases in demand for their products which could lead to production disruption for the customer. Any prolonged disruption in the supply of critical components, the inability to re-source production of a critical component from a distressed automotive components sub-supplier, or any temporary shut-down of production lines or the production lines of a customer, could have a material adverse effect on profitability. Additionally, the insolvency, bankruptcy, financial restructuring or force majeure event of any critical suppliers could result in the Company incurring unrecoverable costs related to the financial work-out or resourcing costs of such suppliers and/or increased exposure for product liability, warranty or recall costs relating to the components supplied by such suppliers to the extent such supplier is not able to assume responsibility for such amounts, each of which could have an adverse effect on the Company's profitability. Also see "*Risks: Dependence Upon Key Customers*" and "*Environmental Regulation*".

Competition

The markets for fluid management systems, cast aluminum products and fabricated metal products, assemblies and systems for automotive and industrial customers are highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources than the Company. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

Cost Absorption and Purchase Orders

Given the current trends in the automotive industry, the Company is under continuing pressure to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling in addition to items previously paid for directly by OEMs. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through the piece price of the applicable component. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the product development, design, engineering, prototype and validation costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

Material Prices

Prices for key raw materials and commodities used in parts production, particularly aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. In 2018 and 2019 to date, the Company and the industry has experienced steel and aluminum tariffs imposed by the U.S. and Canada, among others, in the context of trade negotiations. Martinrea has attempted to mitigate its exposure to price increases of key commodities, particularly steel and aluminum (through participation in steel resale programs or price adjustment mechanisms and, in the case of tariffs, largely through obtaining tariff relief in most cases); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content,

by passing commodity price increases to customers, by avoiding tariffs or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also impact on production or transportation costs which in turn could affect competitiveness.

Outsourcing and Insourcing Trends

The Company is dependent on the outsourcing of components, modules and assemblies by OEMs. The extent of OEM outsourcing is influenced by a number of factors, including relative cost, quality and timeliness of production by suppliers as compared to OEMs, capacity utilization, and labour relations among OEMs, their employees and unions. As a result of any favourable terms in collective bargaining agreements which may lower cost structures, OEMs may insource some production which had previously been outsourced, or not outsource production which may otherwise be outsourced at some point. Outsourcing of some assembly is particularly dependent on the degree of unutilized capacity at the OEMs' own assembly facilities, in addition to the foregoing factors. A reduction in outsourcing by OEMs, or the loss of any material production or assembly programs coupled with the failure to secure alternative programs with sufficient volumes and margins, could have a material adverse effect on profitability.

Product Warranty, Recall and Liability Risk

Automobile manufacturers are increasingly requesting that each of their suppliers bear costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. 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 operations and financial condition.

Product Development and Technological Change

The automotive industry is characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices, and delivering lightweighting and other products or systems that will enable it to continue to have content on the cars of the future (including for example, electric and autonomous vehicles). The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's results of operations. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols. There can be no assurance that the Company will be successful in its efforts in these respects.

Dependence Upon Key Personnel

The success of the Company is dependent on the services of a number of the members of its senior management, who set the culture, hire the talent, provide strategic direction, oversee operational excellence and drive financial discipline of the Company. The experience and talents of these individuals has been and will be a significant factor in the Company's continued success and growth. The loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company does not currently maintain key man insurance.

The Company's business depends on its ability to attract, develop and retain experienced and highly skilled personnel. Such personnel are in high demand in the areas in which we compete, and competition for their services is intense. As a result of the rapid changes and the intense competition in the automotive industry, the Company has a growing need for skilled people and the Company may face substantial competition for such personnel, from traditional and less traditional sources. The inability to attract and retain highly-skilled personnel could have an adverse effect on the Company's operations and its ability to fully implement its business strategy.

Limited Financial Resources/Uncertainty of Future Financing/Banking

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Additional equity financings may result in substantial dilution to existing shareholders.

Acquisitions

The Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products, at competitive prices. The completion of such transactions poses additional risks to the Company's business. The benefit to the Company of previous and future acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products into the Company, and the Company may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). The Company cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Company. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt. Such transactions may involve partners, and the formula for determining contractual sale provisions may be subject to a variety of factors that may not be easily quantified or estimated until the time of sale (such as market conditions and determining fair market value).

Joint Ventures

The Company has in the past and may from time to time conduct certain of its operations through joint ventures under contractual arrangements under which it shares management responsibilities with one or more partners. Joint venture operations carry a range of risks, including those relating to: failure of a joint venture partner to satisfy contractual obligations; potential conflicts between the Company and the joint venture partner; strategic objectives of joint venture partner(s) that may differ from the Company's; potential delays in decision-making; a more limited ability to control legal and regulatory compliance within the joint venture(s); and other risks inherent to non-wholly-owned operations. The likelihood of such occurrences and potential effect on the Company may vary depending on the joint venture arrangement; however, the occurrence of any such risks could have an adverse effect on the Company's operations, profitability and reputation;

Potential Rationalization Costs and Turnaround Costs

The Company has incurred restructuring costs over the past several years, sometimes in conjunction with the cancelation of a customer program or the closing of a customer plant. In response to the increasingly competitive automotive industry conditions, it is likely that the Company will continue to rationalize some production facilities. In the course of such rationalization, restructuring costs related to plant closings or alterations, relocations and employee severance costs will be incurred. Such costs could have an adverse effect on short-term profitability. In addition, while the Company's goal is for every plant to be profitable, there is no assurance this will occur, which will likely result in a rationalizing or closing of the plant. Martinrea is working to turn around any financially underperforming divisions, however, there is no guarantee that it will be successful in doing so with respect to some or all such divisions. The continued underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

Launch and Operational Costs

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years.

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability.

Labour Relations Matters

The Company has a significant number of its employees subject to collective bargaining agreements, as do many of the Company's customers and suppliers. To date, the Company has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes (including labour disputes of the Company's customers and suppliers), whether in the context of potential restructuring or in connection with negotiations undertaken to ensure a division's competitiveness, or otherwise, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations. The Company cannot predict whether and when any labour disruption may arise or how long such disruption could last. A significant labour disruption could lead to a lengthy shutdown of the Company or its customers' or suppliers' facilities or production lines, which could have a material adverse effect on the Company's operations and profitability.

Trade Restrictions

The global growth of the automotive industry has been aided by the free movement of goods, services, people and capital through bilateral and regional trade agreements, particularly in North America and Europe. Introduction of measures which impede free trade, including new or increased tariffs and other trade barriers, could have a material adverse effect on the Company's operations and profitability. (See also "*Changes in Laws and Governmental Regulations*").

Changes in Laws and Governmental Regulations

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to NAFTA (now USMCA, if, as and when ratified), the CPTPP or Brexit, the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States or China (such as increased tariffs or investigations relating to anti-dumping) or positive or negative changes in tax or other legislation. In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs. Changes in legislation or regulation could lead to additional administrative burden and costs in general, and also carry the potential of a material fine or significant reputational risk. Changes in laws or regulations could also result in the Company shifting its operations to more favourable jurisdictions (see "*Litigation and Regulatory Compliance and Investigations*" "*Potential Rationalization and Turnaround Costs*" and "*Currency Risk: Competitiveness in Certain Jurisdictions*").

Litigation and Regulatory Compliance and Investigations

The Company has been and is involved in litigation from time to time and has received, in the past, letters from third parties alleging claims and claims have been made against it including those described under "Legal Proceedings". Although litigation claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. There can be no assurance 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. There can be no assurance that such arrangements will be available on reasonable terms, or at all. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome or determine the amount of any potential losses or the success of any claim or of any law suit referenced under "Legal Proceedings" in the AIF and any other claims to which the Company may be subject. In addition, there is no assurance that the Company will be successful in a litigation matter. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations. See *"Legal Proceedings"* in the AIF. The Company's policy is to comply with all applicable laws. However, the Company or its directors and officers may also be subject to regulatory risk in the markets in which it operates (for example, antitrust and competition regulatory authorities, tax authorities, anti-bribery and corruption authorities, cybersecurity risk and privacy legislation such as GDPR). Regulatory investigations, if any, can continue for several years, and depending on the jurisdiction and type of proceeding can result in administrative or civil or criminal penalties that could have a material adverse effect on the Company's profitability or operations (even where the Company or any of its officers or directors is innocent, investigations can be expensive to defend). Additionally, the Company could be subject to other consequences including reputational damage, which could have a material adverse effect on the Company.

Currency Risk - Hedging

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the U.S. dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To date, the Company has engaged in some hedging activities to mitigate the risk of identified exchange rate exposures. To the extent the Company may seek to implement more substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

Currency Risk – Competitiveness in Certain Jurisdictions

Currency fluctuations may negatively or positively affect the competitiveness of the Company's operations in a particular jurisdiction. As a result, the Company may move some existing work to another country, or may source work to different divisions, in order for the Company to remain or become competitive. Any work shifts may entail significant restructuring and other costs as work is shifted, as plants are consolidated, downsized or closed, or as plants in other jurisdictions are expanded.

Fluctuations in Operating Results

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers (which tend to include a shutdown period in each of July and December), pricing policies, launch costs, or operational (or equipment or systems) failures, or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns or limitations on spending.

Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Company. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of the Company to continue its business as presently constituted. The Company has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected and corrected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, the Company assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. The Company's current system of internal and disclosure controls also places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

Environmental Regulation

The Company is subject to a variety of environmental regulations by the federal, provincial and municipal authorities in Canada, the United States, Mexico, South America, Europe and China that govern, among other things, soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases, into the environment; and health and safety. If the Company fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators or become subject to litigation. Environmental and pollution control laws, regulations and permits, and the enforcement thereof, change frequently, have tended to become more stringent over time and may necessitate substantial capital expenditures or operating costs. Environmental regulation in any one jurisdiction in which the Company operates may impact the business of the Company to the extent that jurisdiction becomes less competitive. In addition to the foregoing, the Company may also incur costs and expenses resulting from environmental compliance, contamination or incidents, such as any changes to facilities to address physical, health and safety or regulatory constraints, repair or rebuilding facilities impacted by adverse weather events, or research and development activities related to more environmentally efficient operations and processes, as well as other potential costs. (See also *"Financial Viability of Suppliers"*.)

Under certain environmental requirements, the Company could be responsible for costs relating to any contamination at the Company's or a predecessor entity's current or former owned or operated properties or third-party waste-disposal sites, even if the Company was not at fault. In addition to potentially significant investigation and cleanup costs, contamination can give rise to third-party claims for fines or penalties, natural resource damages, personal injury or property damage.

The Company and its customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility, which may impact the Company's business and operations. The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address environmental concerns of its customers. Despite these efforts, evolving customer concerns could negatively affect the Company's reputation and financial performance.

The Company requires compliance with its policies both internally and, where relevant, for its suppliers. Although the Company requires its suppliers to comply with these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs, potentially causing shortages in products, delays in delivery or other disruptions in operations. (See *"Supply Chain Responsibility"* in the AIF.)

The Company's operations may also be impacted by any environmental policies or incidents at any of its customers or suppliers to the extent that it affects production or volumes.

Due to the global nature of the Company's business, suppliers may operate in regions that are susceptible to extreme weather events, such as earthquakes, tsunamis or hurricanes, which could have a material impact on the availability of a product. The Company has policies and procedures in place to mitigate such risk and obtain alternate supply; however, that may not be possible in all cases for a critical component. Any interruption to the Company's supply of product or resulting changes in price to the Company could lower the Company's revenues, increase its operating costs and impact its financial results. (See also *"Financial Viability of Suppliers"*.)

The Company cannot provide assurances that the Company's costs, liabilities and obligations or any resulting impact on its revenues due to customer requirements or changes in supply chain requirements relating to environmental matters (or any issues that may arise as a result of its customers' or suppliers' own environmental compliance or incidents, including any environmental compliance or incidents or trends that may impact their businesses) or from environmental matters in general, including any arising from climate change, will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

A Shift Away from Technologies in Which the Company is Investing

The Company continues to invest in technology and innovation which the Company believes will be critical to its long-term growth. The Company's ability to anticipate changes in technology and trends and to successfully develop and introduce new and enhanced products and/or manufacturing processes on a timely basis will be a significant factor in its ability to remain competitive. If there is a shift away from the use of technologies in which the Company is investing, or a change in trends its costs may not be fully recovered. In addition, the Company may be placed at a competitive disadvantage if other technologies in which the investment is not as great, or the Company's expertise is not as developed, emerge as the industry-leading technologies. This could have a material adverse effect on the Company's profitability and financial condition.

Competition with Low Cost Countries

The competitive environment in the automotive industry has intensified as customers seek to take advantage of low wage costs in China, Korea, Thailand, India and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost countries. The loss of any significant production contract to a competitor in low cost countries or significant costs and risks incurred to enter and carry on business in these countries could have an adverse effect on profitability.

The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets

Many of the Company's customers have sought, and will likely continue to seek to take advantage of lower operating costs and/or other advantages in China, India, Brazil, Russia and other growing markets. While the Company continues to expand its manufacturing footprint with a view to taking advantage of manufacturing opportunities in some of these markets, the Company cannot guarantee that it will be able to fully realize such opportunities. The inability to quickly adjust its manufacturing footprint to take advantage of manufacturing opportunities in these markets could harm its ability to compete with other suppliers operating in or from such markets, which could have an adverse effect on its profitability.

Risks of conducting business in foreign countries, including China, Brazil and other growing markets

The Company has or may establish foreign manufacturing, assembly, product development, engineering and research and development operations in foreign countries, including in Europe, China and Brazil. International operations are subject to certain risks inherent in doing business abroad, including:

- political, civil and economic instability;
- corruption risks;
- trade, customs and tax risks;
- currency exchange rates and currency controls;
- limitations on the repatriation of funds;
- insufficient infrastructure;
- restrictions on exports, imports and foreign investment;
- environmental risk;
- increases in working capital requirements related to long supply chains;
- difficulty in protecting intellectual property rights; and

- different and challenging legal systems.

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability. Current relations, trade and otherwise, between China, the U.S. and Canada have increased some of the risks of operating in China and dealing with Chinese operations.

Potential Tax Exposures

The Company may incur losses in some countries which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax exposures arising out of changes in tax laws, tax reassessments or otherwise. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions that are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain value added tax credits claimed. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 21 to the Company's consolidated financial statements for the year ended December 31, 2018). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability.

Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates.

The Company's effective tax rate varies in each country in which it conducts business. Changes in its mix of earnings between jurisdictions with lower tax rates and those with higher tax rates could have a material adverse effect on the Company's profitability.

Pension Plans and other post employment benefits

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2018, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2018, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund some amounts in 2019 and beyond. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2018, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2018.

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2018, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2019 and beyond are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post-employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post-employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2018, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2018.

Impairment Charges

The Company may take, in the future, significant impairment charges, including charges related to long-lived assets. The early termination, loss, renegotiation of the terms of, or delay in the implementation of, any significant production contract could be indicators of impairment. In addition, to the extent that forward-looking assumptions regarding: the impact of turnaround plans on underperforming operations; new business opportunities; program price and cost assumptions on current and future business; the timing and success of new program launches; and forecast production volumes, are not met, any resulting impairment loss could have a material adverse effect on the Company's profitability.

Cybersecurity Threats

The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective information technology systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's or its customers', or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

Potential Volatility of Share Prices

The market price of the Company's common shares has been, and will likely continue to be, subject to significant fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares is low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating results, the gain or loss of significant contracts, announcements of technological or competitive developments by the Company or its competitors, acquisitions or entry into strategic alliances by the Company or its competitors, the gain or loss of a significant customer or strategic relationship, changes in estimates of the Company's financial performance, changes in recommendations from securities analysts regarding the Company, the industry or its customers' industries, litigation involving the Company or its officers and general market or economic conditions.

In certain circumstances that the Company determines that its share price is undervalued, the Company may use funds, that would otherwise be available for its operations or other uses, to repurchase its own shares as an investment. However, there can be no assurances that any such repurchase of shares will have a positive impact on the Company's share price.

Dividends

The declaration and payment of dividends, including the dividend rate, is subject to the Board's discretion taking into account the Company's cash flow, capital requirements, financial condition and other factors the Board considers relevant. These factors are, in turn, subject to various risks, including the risk factors set out above. While the Company aims to pay a consistent dividend and may increase the dividend over time, the Company's Board may in certain circumstances determine that it is in the best interests of the Company to reduce or suspend the dividend. In such event, the trading price of the Common Shares of the Company may be materially affected.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 28, 2019, the Company had 82,808,607 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at February 28, 2019, options to acquire 2,350,700 common shares were outstanding.

During 2018, the Company received approval from the Toronto Stock Exchange ("TSX") to acquire for cancellation, by way of normal course issuer bid ("NCIB"), up to 4,348,479 common shares of the Company. The bid commenced on August 31, 2018 and spans a 12-month period.

During 2018, since the commencement of the NCIB on August 31, 2018, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of $25.5 million, resulting in a decrease to stated capital of $17.7 million and a decrease to retained earnings of $7.8 million. Subsequent to December 31, 2018, the Company purchased for cancellation another 2,120,577 common shares for an aggregate purchase price of $25.4 million under an automatic share repurchase program with a broker. The shares were purchased for cancellation under the NCIB.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

At December 31, 2018, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total
Purchase obligations (i)	$	369,928	-	-	-	-	-	369,928
Long-term debt	$	16,804	13,887	13,901	673,985	6,182	15,958	740,717
Lease commitments	$	39,601	34,838	29,979	26,583	24,324	84,727	240,052
Total Contractual obligations	$	426,333	48,725	43,880	700,568	30,506	100,685	1,350,697

(i) Purchase obligations consist of those related to inventory, services, tooling and fixed assets in the ordinary course of business.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2018, the amount of the off balance sheet program financing was $58.9 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-24 months.

Hedge Accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

Cash flow hedges:

During the year ended December 31, 2018, the Company started hedging variability in cash flows of certain forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales in a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects net income (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in net income.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net income, at the earlier of when the hedged item affects net income, or when the forecasted item is no longer expected to occur.

Net investment hedges:

The Company continues to use some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments in certain US operations.

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2018.

Financial Instruments

The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

At December 31, 2018, the Company had committed to trade the following foreign exchange contracts:

Foreign exchange contracts not accounted for a hedges and fair valued through profit or loss:

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	40,000	1.3462	1
Buy Mexican Peso	$	23,857	20.1200	1

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax gain of $0.07 million and was recorded in trade and other receivables ((December 31, 2017 – loss of $0.1 million recorded in trade and other payables).

Foreign exchange contracts accounted for as hedges and fair valued through other comprehensive income:

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	57,900	1.2780	48

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax loss of $4.1 million and was recorded in trade and other payables (December 31, 2017 – nil).

INVESTMENTS

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

NanoXplore is a graphene company, a manufacturer and supplier of high volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions under the heXo-G brand, including graphene powder, graphene plastic masterbatch pellets, and graphene-enhanced polymers. The company has its headquarters and graphene production facility in Montreal, Quebec.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at December 31, 2018, the warrants had a fair value of $2.2 million. Based on the fair value of the warrants as at December 31, 2018, an unrealized loss of $1.9 million was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $3.7 million), recorded in other finance income (expense) in the consolidated statement of operations. The table below summarizes the assumptions used, on a weighted average basis, in valuing the warrants under the Black-Scholes-Merton valuation model during the year ended December 31, 2018:

	2018 Acquisition	**December 31, 2018**
Expected volatility	66.87%	74.23%
Risk free interest rate	1.88%	1.86%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically quoted prices, with the change in fair value recorded in other comprehensive income. As at December 31, 2018, the common shares had a fair value of $8.6 million. Based on the fair value of the common shares as at December 31, 2018, an unrealized loss of $3.3 million ($2.9 million net of tax) was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $9.1 million, $8.0 million net of tax).

Subsequent to December 31, 2018, on January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of approximately $15.0 million through another private placement offering. Subsequent to the completion of the transaction, Martinrea holds an aggregate of 17,449,800 common shares of NanoXplore which represents approximately 16% of the issued and outstanding common shares of NanoXplore.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of December 31, 2018, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management team used COSO to design the Company's internal controls over financial reporting.

The CEO and CFO have caused an evaluation of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2018. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2018 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity's objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human

error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The discussion below describes the Company's significant policies and procedures.

The Company's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions. In making and evaluating its estimates, management also considers economic conditions generally and in the automotive industry in particular, which have more recently been very different from historical patterns, as well as industry trends and the risks and uncertainties involved in its business that could materially affect the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. See "Automotive Industry Highlights and Trends" in the Company's AIF and "Risks and Uncertainties" above.

Management believes that the accounting estimates discussed below are critical to the Company's business operations and an understanding of its results of operations or may involve additional management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value-in-use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the other assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management

is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; (ii) the determination of the Company's CGUs requires judgement; and (iii) any resulting impairment loss could have a material impact on consolidated net income and on the amount of assets reported on the Company's consolidated balance sheet.

Income Tax Estimates

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company is required to estimate the tax basis of assets and liabilities. The assessment for the recognition of a deferred tax asset requires significant judgment. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. 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 change in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

At December 31, 2018, the Company had recorded a net deferred income tax asset in respect of pensions and other post-retirement benefits, loss carry-forwards and other temporary differences of $61.0 million (2017 - $59.8 million). Deferred tax assets in respect of loss carry-forwards relate to legal entities in Canada, the United States, Mexico and Europe. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The factors used to assess the probability of realization are the Company's forecast of future taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred tax assets in order to avoid the potential loss of benefits.

Revenue Recognition

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

Revenue and cost of sales from tooling contracts are presented on a gross basis in the consolidated statements of operations.

Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

Employee Future Benefits

The Company provides pensions and other post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Company's annual consolidated financial statements for the year ended December 31, 2018 the most significant of which are the discount rate, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses which are recognized in other comprehensive income as they arise. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

Intangible Assets

The Company's intangible assets are comprised of customer contracts and relationships acquired in acquisitions and development costs.

Customer contracts and relationships are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a basis consistent with the contract value initially established upon acquisition.

Development costs are capitalized when the Company can demonstrate that:

- it has the intention and the technical and financial resources to complete the development;
- the intangible asset will generate future economic benefits; and
- the cost of the intangible asset can be measured reliably.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the consolidated statements of operations.

Judgement is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit. Further, estimates are used to test the recoverability of development costs. Any resulting impairment loss could have a material impact on consolidated net income and the amount of assets reported on the Company's consolidated balance sheet.

Expenditure on research activities, including costs of market research and new product prototyping during the marketing stage, is recognized in profit or loss when incurred.

RECENTLY ADOPTED AND APPLICABLE ACCOUNTING STANDARDS AND POLICIES (INCLUDING ANY CHANGES TO CRITICAL ACCOUNTING ESTIMATES)

The Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The Company's revenue recognition accounting policy has been updated accordingly as described above and in note 2(j) of the consolidated financial statements for the year ended December 31, 2018.

Upon adoption of the new standard, additional disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a continuity of contract liabilities and a breakdown of the Company's revenues between production and tooling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. The Company's accounting policies on financial instruments have been updated accordingly as described in note 2(c) of the consolidated financial statements for the year ended December 31, 2018.

IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standard under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards.

Amendments to IFRS 2, Share-Based Payments

The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

Recently issued accounting standards

The IASB issued the following new standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 introduces a single accounting model for lessees unless the underlying asset is of low value. A lessee will be required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company will adopt the standard January 1, 2019, by applying the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings on the date of initial application without restating comparative prior periods, as permitted by the transitional guidance. The impact of adoption will result in the recognition of right-of-use assets estimated in the range of $200 million to $250 million, with corresponding lease liabilities in the same range. The adoption of IFRS 16 will also result in a decrease in operating rent expense, and increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The standard will not have a significant impact on the Company's overall consolidated operating results and cash flows.

SELECTED ANNUAL INFORMATION

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.

	2018	2017	2016
Sales	$ 3,662,900	$ 3,690,499	$ 3,968,407
Gross Margin	556,161	484,601	432,050
Operating Income	276,472	246,624	159,444
Net Income for the period	185,883	159,266	91,961
Net Income Attributable to Equity Holders of the Company	$ 185,883	$ 159,543	$ 92,380
Net Earnings per Share - Basic	$ 2.15	$ 1.84	$ 1.07
Net Earnings per Share - Diluted	$ 2.14	$ 1.84	$ 1.07
Non-IFRS Measures*			
Adjusted Operating Income	$ 283,981	$ 236,807	$ 197,707
% of sales	7.8%	6.4%	5.0%
Adjusted EBITDA	461,223	401,493	350,357
% of sales	12.6%	10.9%	8.8%
Adjusted Net Income Attributable to Equity Holders of the Company	$ 193,166	$ 165,519	$ 130,085
Adjusted Net Earnings per Share - Basic	$ 2.23	$ 1.91	$ 1.51
Adjusted Net Earnings per Share - Diluted	$ 2.22	$ 1.91	$ 1.50
Total Assets	$ 2,913,811	$ 2,541,173	$ 2,468,494
Cash and Cash Equivalents	$ 70,162	$ 71,193	$ 59,165
Total Interest Bearing Debt	$ 740,717	$ 654,017	$ 721,403
Dividends Declared	$ 14,213	$ 10,388	$ 10,366

The year-over-year trends in the selected information above have been discussed previously in this MD&A, as well as the MD&A from December 31, 2017, including the unusual items in Table B under "Adjustments to Net Income".

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company’s performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include “Adjusted Net Income”, “Adjusted Net Earnings per Share (on a basic and diluted basis)”, “Adjusted Operating Income” and "Adjusted EBITDA”. Refer to page 3 and 4 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2018 and 2017 and the Company’s MD&A for the year ended December 31, 2017, as previously filed and available at www.sedar.com, for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2016.

FORWARD-LOOKING INFORMATION

This MD&A and the documents incorporated by reference therein contains forward looking statements within the meaning of applicable Canadian securities laws including those related to the Company’s expectations as to, or its views, or beliefs in or on, the growth of the Company and pursuit of, and belief in, its strategies, investments in its business and technologies, the management and monitoring of SG&A expenses, the financing of future capital expenditures, and ability to fund anticipated working capital needs, the Company’s views on its liquidity and ability to deal with present economic conditions, the impact of tariffs, the USMCA and trade disputes and negotiations on the automotive industry, global markets and the Company’s profitability, for the growth of the automotive market, the effect of regulation on demand for automobiles, the potential for future acquisitions, the potential volatility of the Company’s shares, the potential for fluctuation of operating results, the compliance in Brazil tax legislation and its success in defending the claims, the funding and reduction of liability in pension plans, the likelihood of tooling supplier default under tooling guarantee programs, and the payment of dividends as well as other forward looking statements. The words “continue”, “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “views”, “intend”, “believe”, “plan” and similar expressions are intended to identify forward looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company’s actual results, performance or achievements to differ materially from those expressed or implied by the forward looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company’s Annual Information Form for the year ended December 31, 2018 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- the risks associated with joint ventures;
- costs associated with rationalization of production facilities;
- launch and operational costs;
- labour disputes;
- changes in governmental regulations or laws including any changes to trade;
- litigation and regulatory compliance and investigations;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits;
- impairment charges;
- cybersecurity threats;
- the potential volatility of the Company's share price; and
- dividends.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward looking statements. The Company has no intention and undertakes no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law.

MARTINREA INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Martinrea International Inc.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management's judgement. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2018 is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, for overseeing management's performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, multiple times a year to review, among other matters, accounting policies, any observations relating to internal controls over the financial reporting process that may be identified during the audit, as influenced by the nature, timing and extent of audit procedures performed, annual financial statements, the results of the external audit and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2018. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) *"Pat D'Eramo"*

Pat D'Eramo

President & Chief Executive Officer

(Signed) *"Fred Di Tosto"*

Fred Di Tosto

Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Martinrea International Inc.

Opinion

We have audited the accompanying consolidated financial statements of Martinrea International Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms
affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in the Report to Shareholders filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the Report to Shareholders filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is W. G. Andrew Smith.
Vaughan, Canada
February 28, 2019

Martinrea International Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents		$ 70,162	$ 71,193
Trade and other receivables	3	597,796	556,049
Inventories	4	492,759	376,972
Prepaid expenses and deposits		23,275	15,504
Income taxes recoverable		21,301	12,979
TOTAL CURRENT ASSETS		1,205,293	1,032,697
Property, plant and equipment	5	1,481,452	1,282,624
Deferred income tax assets	13	145,354	142,173
Intangible assets	6	70,931	68,414
Other assets	7	10,781	15,265
TOTAL NON-CURRENT ASSETS		1,708,518	1,508,476
TOTAL ASSETS		$ 2,913,811	$ 2,541,173
LIABILITIES			
Trade and other payables	9	$ 862,699	$ 741,549
Provisions	10	5,393	5,048
Income taxes payable		7,816	34,429
Current portion of long-term debt	11	16,804	24,795
TOTAL CURRENT LIABILITIES		892,712	805,821
Long-term debt	11	723,913	629,222
Pension and other post-retirement benefits	12	61,267	65,258
Deferred income tax liabilities	13	84,370	82,373
TOTAL NON-CURRENT LIABILITIES		869,550	776,853
TOTAL LIABILITIES		1,762,262	1,582,674
EQUITY			
Capital stock	14	680,157	713,425
Contributed surplus		42,016	41,981
Accumulated other comprehensive income		158,395	94,268
Retained earnings		270,981	108,825
TOTAL EQUITY		1,151,549	958,499
TOTAL LIABILITIES AND EQUITY		$ 2,913,811	$ 2,541,173

Subsequent Event (note 7)

Commitments and Contingencies (note 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

Martinrea International Inc.

Consolidated Statements of Operations

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

	Note	Year ended December 31, 2018	Year ended December 31, 2017
SALES		$ 3,662,900	$ 3,690,499
Cost of sales (excluding depreciation of property, plant and equipment)		(2,954,142)	(3,065,880)
Depreciation of property, plant and equipment (production)		(152,597)	(140,018)
Total cost of sales		(3,106,739)	(3,205,898)
GROSS MARGIN		556,161	484,601
Research and development costs	16	(26,564)	(26,597)
Selling, general and administrative		(232,313)	(211,533)
Depreciation of property, plant and equipment (non-production)		(10,701)	(9,652)
Amortization of customer contracts and relationships		(2,140)	(2,162)
Gain (loss) on disposal of property, plant and equipment		(462)	383
Impairment of assets	8	(5,436)	(7,488)
Restructuring costs	10	(2,073)	-
Gain on sale of land and building	5	-	19,072
OPERATING INCOME		276,472	246,624
Finance expense	18	(27,358)	(22,527)
Other finance income (expense)	18	(2,288)	5,139
INCOME BEFORE INCOME TAXES		246,826	229,236
Income tax expense	13	(60,943)	(69,970)
NET INCOME FOR THE PERIOD		$ 185,883	$ 159,266
Non-controlling interest		-	277
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$ 185,883	$ 159,543
Basic earnings per share	15	$ 2.15	$ 1.84
Diluted earnings per share	15	$ 2.14	$ 1.84

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

	Year ended December 31, 2018	Year ended December 31, 2017
NET INCOME FOR THE PERIOD	$ 185,883	$ 159,266
Other comprehensive income (loss), net of tax:		
Items that may be reclassified to net income		
Foreign currency translation differences for foreign operations	72,610	(30,737)
Change in fair value of investments	(2,867)	7,957
Cash flow hedging derivative and non-derivative financial instruments:		
Unrealized loss in fair value of financial instruments	(6,036)	-
Reclassification of losses to net income	420	-
Items that will not be reclassified to net income		
Remeasurement of defined benefit plans	4,079	1,539
Other comprehensive income (loss), net of tax	68,206	(21,241)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 254,089	$ 138,025
Attributable to:		
Equity holders of the Company	254,089	138,302
Non-controlling interest	-	(277)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 254,089	$ 138,025

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.
Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars)

	Equity attributable to equity holders of the Company						
	Capital stock	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings/ (accumulated deficit)**	**Total**	**Non-controlling interest**	**Total equity**
BALANCE AT DECEMBER 31, 2016	$ 710,510	$ 42,660	$ 117,048	$ (40,020)	$ 830,198	$ (522)	$ 829,676
Net income for the period	-	-	-	159,543	159,543	(277)	159,266
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	123	-	-	123	-	123
Dividends ($0.12 per share)	-	-	-	(10,388)	(10,388)	-	(10,388)
Exercise of employee stock options	2,915	(802)	-	-	2,113	-	2,113
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,539	1,539	-	1,539
Foreign currency translation differences	-	-	(30,737)	-	(30,737)	-	(30,737)
Change in fair value of investments	-	-	7,957	-	7,957	-	7,957
BALANCE AT DECEMBER 31, 2017	713,425	41,981	94,268	108,825	958,499	-	958,499
Net income for the period	-	-	-	185,883	185,883	-	185,883
Compensation expense related to stock options	-	651	-	-	651	-	651
Dividends ($0.165 per share)	-	-	-	(14,213)	(14,213)	-	(14,213)
Exercise of employee stock options	2,523	(616)	-	-	1,907	-	1,907
Repurchase of common shares	(17,699)	-	-	(7,814)	(25,513)	-	(25,513)
Estimated repurchase of common shares subsequent to year-end under an automatic share repurchase program with a broker	(18,092)	-	-	(5,779)	(23,871)	-	(23,871)
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	4,079	4,079	-	4,079
Foreign currency translation differences	-	-	72,610	-	72,610	-	72,610
Change in fair value of investments	-	-	(2,867)	-	(2,867)	-	(2,867)
Cash flow hedging derivative and non-derivative financial instruments:							
Unrealized loss in fair value of financial instruments	-	-	(6,036)	-	(6,036)	-	(6,036)
Reclassification of losses to net income	-	-	420	-	420	-	420
BALANCE AT DECEMBER 31, 2018	$ 680,157	$ 42,016	$ 158,395	$ 270,981	$ 1,151,549	$ -	$ 1,151,549

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 31, 2018	Year ended December 31, 2017
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net Income for the period	$ 185,883	$ 159,266
Adjustments for:		
Depreciation of property, plant and equipment	163,298	149,670
Amortization of customer contracts and relationships	2,140	2,162
Amortization of development costs	11,342	13,237
Impairment of assets (note 8)	5,436	7,488
Unrealized loss (gain) on foreign exchange forward contracts	(66)	146
Unrealized loss (gain) on warrants (note 7)	1,887	(3,697)
Finance expense	27,358	22,527
Income tax expense	60,943	69,970
Loss (gain) on disposal of property, plant and equipment	462	(383)
Deferred and restricted share units expense	2,454	2,751
Stock options expense	651	123
Gain on sale of land and building (note 5)	-	(19,072)
Pension and other post-retirement benefits expense	4,066	4,487
Contributions made to pension and other post-retirement benefits	(4,842)	(2,468)
	461,012	406,207
Changes in non-cash working capital items:		
Trade and other receivables	(7,550)	(77)
Inventories	(91,590)	(80,483)
Prepaid expenses and deposits	(6,964)	(1,344)
Trade, other payables and provisions	69,352	55,028
	424,260	379,331
Interest paid (excluding capitalized interest)	(30,855)	(20,304)
Income taxes paid	(96,703)	(56,166)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 296,702	$ 302,861
FINANCING ACTIVITIES:		
Repurchase of common shares	(25,513)	-
Increase in long-term debt (net of addition to deferred financing fees)	114,496	40,000
Repayment of long-term debt	(57,710)	(88,648)
Dividends paid	(12,999)	(10,380)
Exercise of employee stock options	1,907	2,113
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ 20,181	$ (56,915)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment*	(309,049)	(259,600)
Capitalized development costs	(14,171)	(14,211)
Investment in NanoXplore Inc. (note 7)	(680)	(2,475)
Proceeds on disposal of property, plant and equipment	1,577	3,586
Upfront recovery of development costs incurred	2,566	1,170
Proceeds on disposal of land and building (note 5)	-	40,910
NET CASH USED IN INVESTING ACTIVITIES	$ (319,757)	$ (230,620)
Effect of foreign exchange rate changes on cash and cash equivalents	1,843	(3,298)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,031)	12,028
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	71,193	59,165
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 70,162	$ 71,193

*As at December 31, 2018, $45,341 (December 31, 2017 - $63,877) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the consolidated financial statements.

Martinrea International Inc. (the “Company”) was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. The Company is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector.

1. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements of the Company for the year ended December 31, 2018 were approved by the Board of Directors on February 28, 2019.

(b) Presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

(c) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Estimates of the economic life of property, plant and equipment and intangible assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company’s estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company’s best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately-priced tooling contracts: Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the

entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

- Estimates used in determining the fair value of stock option and performance share unit grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options/units granted, where relevant.
- Estimates used in determining the fair value of derivative instruments associated with investments in equity securities. These estimates include assumptions about the volatility of the investee's stock and expected life of the instrument.

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgements made are disclosed in individual notes throughout the financial statements where relevant):

- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.
- Accounting for development costs – judgement is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit.
- Judegements in determining the timing of revenue recognition for tooling sales.
- Judgements in determining whether sales contracts contain material rights.
- The determination of the Company's cash generating units for impairment testing.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

(i) Foreign currency transactions

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

(ii) Translation of financial statements of foreign operations

The assets and liabilities of subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate prevailing on the date of transaction.

Foreign currency differences on translation are recognized in other comprehensive income in foreign currency translation differences, net of income tax.

(c) Financial instruments

(i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification as described below:

Fair value through profit or loss (FVTPL):
Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative instruments that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income:
This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the consolidated statement of operations.

Amortized cost:
The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables.
The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:
This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

(ii) Impairment of financial assets

A forward-looking "expected credit loss" (ECL) model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The Company's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

(iii) Derivative financial instruments not accounted for as hedges

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments, as well as derivative instruments associated with investments in equity securities, are classified as fair value through profit or loss, initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value being recognized immediately in the consolidated statement of operations.

(iv) Hedge accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

Cash flow hedges
During the year ended December 31, 2018, the Company started hedging variability in cash flows of forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales in a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects net income (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in net income.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net income, at the earlier of when the hedged item affects net income, or when the forecasted item is no longer expected to occur.

Net investment hedges
The Company continues to use some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments in certain US operations.

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2018.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Certain tooling is produced or purchased specifically for the purpose of manufacturing parts for customer orders, which are either a) not sold to the customer, or b) paid for by the customer on delivery of each part, without the customer guaranteeing full financing of the costs incurred. In accordance with IAS 16, this tooling is recognized as property, plant and equipment. It is depreciated to match the lesser of estimated useful life and life of the program.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

(iii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is recorded on the following bases and at the following rates:

	Basis	Rate
Buildings	Declining balance	4%
Leasehold improvements	Straight line	Lesser of estimated useful life and lease term
Manufacturing equipment	Declining balance and straight line	7% to 20%
Tooling and fixtures	Straight line	Lesser of estimated useful life and life of program
Other	Declining balance and straight line	20% to 30%

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

(e) Intangible assets

The Company's intangible assets are composed of customer contracts acquired in previous acquisitions and development costs.

(i) Customer contracts and relationships:

Customer contracts and relationships have a finite useful life and are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a basis consistent with the contract value initially established upon acquisition.

(ii) Research and development:

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if:

- the development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- the future economic benefits are probable, and
- the Company intends to and has sufficient resources to complete the development and to use or sell the asset.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the consolidated statements of operations.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity.
Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of the net realizable value.

(g) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Pensions and other post-retirement benefits

The Company's liability for pensions and other post-retirement benefits is based on valuations performed by independent actuaries using the projected unit credit method. These valuations incorporate both financial assumptions (discount rate, and changes in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The liability for pensions and other post-retirement benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in retained earnings through other comprehensive income.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. Commitments resulting from restructuring plans are recognized when the Company has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time is recognized through profit and loss in other finance income (expense).

(j) Revenue recognition

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.
Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

(k) Finance expense

Finance expense is comprised of interest expense on long-term debt and amortization of deferred financing costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Other finance income (expense)

Other finance income (expense) comprises interest income on funds invested, unwinding of the discount on provisions, changes in the fair value of derivative financial instruments not accounted for as hedges and unrealized foreign exchange gains and losses reported on a net basis. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Guarantees

A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are remeasured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets* and (ii) the amount initially recognized less cumulative amortization.

(o) Stock-based payments

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes-Merton option valuation model to determine the fair value of the options. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

(p) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

(q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(r) Deferred Share Unit Plan

On May 3, 2016, a Deferred Share Unit Plan (the "DSU Plan") was established as a means of compensating non-executive directors and designated employees of the Company and of promoting share ownership and alignment with the shareholders' interests. Non-executive directors of Martinrea are automatically required to participate in the DSU Plan while employees may be designated from time to time, at the sole discretion of the Board of Directors.

Vesting conditions may be attached to the DSUs at the Board of Directors' discretion. To date, DSUs granted to directors vest immediately. DSU Plan participants receive additional DSUs equivalent to cash dividends paid on common shares. DSUs are paid out in cash upon termination of service, based on their fair market value, which is defined as the average closing share price of the Company's common shares for the 20 days preceding the termination date.

DSUs are considered cash-settled awards. The fair value of DSUs, at the date of grant to the DSU Plan participants, is recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the DSUs are fair valued at the end of every reporting period and at the settlement date. Any change in the fair value of the liability is recognized as compensation expense in income.

(s) Performance and Restricted Share Unit Plan

On November 3, 2016, as subsequently amended, a Performance and Restricted Share Unit Plan (the "PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interests. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan) for cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

The fair value of PSUs and RSUs at the date of grant to the PRSU Plan participants, determined using the Monte Carlo Simulation model in the case of PSUs, are recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the RSUs and PSUs are fair valued at the end of every reporting period and at the settlement date. Any change in fair value of the liability is recognized as compensation expense in income.

(t) Recently adopted accounting standards

The Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The Company's revenue recognition accounting policy has been updated accordingly as described in note 2(j).

Upon adoption of the new standard, additional disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a continuity of contract liabilities and a breakdown of the Company's revenues between production and tooling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. The Company's accounting policies on financial instruments have been updated accordingly as described in note 2(c).

IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standard under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards.

Amendments to IFRS 2, Share-Based Payments
The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

(u) Recently issued accounting standards
The IASB issued the following new standards:

IFRS 16, Leases
In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 introduces a single accounting model for lessees unless the underlying asset is of low value. A lessee will be required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company will adopt the standard January 1, 2019, by applying the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings on the date of initial application without restating comparative prior periods, as permitted by the transitional guidance. The impact of adoption will result in the recognition of right-of-use assets estimated in the range of $200 million to $250 million, with corresponding lease liabilities in the same range. The adoption of IFRS 16 will also result in a decrease in operating rent expense, and increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The standard will not have a significant impact on the Company's overall consolidated operating results and cash flows.

3. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables	$ 585,790	$ 538,830
Other receivables	11,940	17,219
Foreign exchange forward contracts not accounted for as hedges (note 20(d))	66	-
	$ 597,796	$ 556,049

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 20.

4. INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	$ 173,123	$ 154,293
Work in progress	39,591	38,618
Finished goods	37,761	34,962
Tooling work in progress and other inventory	242,284	149,099
	$ 492,759	$ 376,972

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 130,106	$ (22,546)	$ 107,560	$ 118,154	$ (17,157)	$ 100,997
Leasehold improvements	70,079	(41,238)	28,841	62,100	(35,897)	26,203
Manufacturing equipment	2,009,183	(1,086,324)	922,859	1,758,415	(909,065)	849,350
Tooling and fixtures	39,551	(33,091)	6,460	38,509	(31,034)	7,475
Other assets	63,807	(31,294)	32,513	53,197	(24,793)	28,404
Construction in progress	383,219	-	383,219	270,195	-	270,195
	$ 2,695,945	$ (1,214,493)	$ 1,481,452	$ 2,300,570	$ (1,017,946)	$ 1,282,624

Movement in property, plant and equipment is summarized as follows:

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress	Total
Net as of December 31, 2016	$ 120,049	$ 24,987	$ 808,036	$ 8,419	$ 17,757	$ 277,999	$ 1,257,247
Additions	-	802	565	-	242	250,311	251,920
Disposals	(22,497)	(311)	(2,024)	-	(209)	-	(25,041)
Depreciation	(4,068)	(4,173)	(134,515)	(1,435)	(5,479)	-	(149,670)
Impairment (note 8)	-	-	(7,488)	-	-	-	(7,488)
Transfers from construction in progress and spare parts	12,537	5,272	213,526	987	16,583	(248,905)	-
Foreign currency translation adjustment	(5,024)	(374)	(28,750)	(496)	(490)	(9,210)	(44,344)
Net as of December 31, 2017	100,997	26,203	849,350	7,475	28,404	270,195	1,282,624
Additions	8	140	-	-	66	290,299	290,513
Disposals	-	(5)	(1,326)	-	(25)	(683)	(2,039)
Depreciation	(4,026)	(4,220)	(146,798)	(1,773)	(6,481)	-	(163,298)
Impairment (note 8)	-	-	(5,436)	-	-	-	(5,436)
Transfers from construction in progress and spare parts	3,868	5,786	176,593	306	9,444	(195,997)	-
Foreign currency translation adjustment	6,713	937	50,476	452	1,105	19,405	79,088
Net as of December 31, 2018	$ 107,560	$ 28,841	$ 922,859	$ 6,460	$ 32,513	$ 383,219	$ 1,481,452

The Company has entered into certain asset-based financing arrangements that were structured as sale-leaseback transactions. At December 31, 2018, the carrying value of property, plant and equipment under such arrangements was $18,108 (December 31, 2017 – $21,001). The corresponding amounts owing are reflected within long-term debt (note 11).

During the first quarter of 2017, in connection with the relocation of an existing operation to another manufacturing facility, a building owned by the Company in Mississauga, Ontario was sold on an “as-is, where-is” basis. The building was sold for proceeds of $9,872 (net of closing costs of $378) resulting in a pre-tax gain of $5,698.

During the fourth quarter of 2017, the Company finalized and closed a sale-leaseback arrangement involving the land and building of two of its operating facilities in the Greater Toronto Area. The assets were sold for net proceeds of $31,038 (net of closing costs of $473) resulting in a pre-tax gain of $13,374. The corresponding leaseback of the assets is for a term of ten years at market rates.

6. INTANGIBLE ASSETS

	December 31, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 62,497	$ (58,498)	$ 3,999	$ 61,432	$ (55,512)	$ 5,920
Development costs	160,008	(93,076)	66,932	143,325	(80,831)	62,494
	$ 222,505	$ (151,574)	$ 70,931	$ 204,757	$ (136,343)	$ 68,414

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2016	$ 8,172	$ 65,089	$ 73,261
Additions	-	14,211	14,211
Amortization	(2,162)	(13,237)	(15,399)
Upfront recovery of development costs incurred	-	(1,170)	(1,170)
Foreign currency translation adjustment	(90)	(2,399)	(2,489)
Net as of December 31, 2017	5,920	62,494	68,414
Additions	-	14,171	14,171
Amortization	(2,140)	(11,342)	(13,482)
Upfront recovery of development costs incurred	-	(2,566)	(2,566)
Foreign currency translation adjustment	219	4,175	4,394
Net as of December 31, 2018	$ 3,999	$ 66,932	$ 70,931

7. OTHER ASSETS

	December 31, 2018	December 31, 2017
Investment in common shares of NanoXplore Inc.	$ 8,572	$ 11,275
Warrants in NanoXplore Inc.	2,209	3,990
	$ 10,781	$ 15,265

Investment in NanoXplore Inc.

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. (“NanoXplore”), a publicly listed company on the Toronto Stock Exchange (“TSX”) Venture Exchange trading under the ticker symbol GRA, for a total of $2,475 through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

NanoXplore is a graphene company, a manufacturer and supplier of high volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions under the heXo-G brand, including graphene powder, graphene plastic masterbatch pellets, and graphene-enhanced polymers. The company has its headquarters and graphene production facility in Montreal, Quebec.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $680 through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at December 31, 2018, the warrants had a fair value of $2,209. Based on the fair value of the warrants as at December 31, 2018, an unrealized loss of $1,887 was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $3,697), in other finance income (expense) in the consolidated statements of operations. The table below summarizes the assumptions used, on a weighted average basis, in valuing the warrants under the Black-Scholes-Merton valuation model during the year ended December 31, 2018:

	2018 Acquisition	December 31, 2018
Expected volatility	66.87%	74.23%
Risk free interest rate	1.88%	1.86%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically-quoted prices, with the change in fair value recorded in other comprehensive income. As at December 31, 2018 the common shares had a fair value of $8,572. Based on the fair value of the common shares as at December 31, 2018, an unrealized loss of $3,277 ($2,867 net of tax) was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $9,093, $7,957 net of tax).

Subsequent to December 31, 2018, on January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of $14,999 through another private placement offering. Subsequent to the completion of the transaction, Martinrea holds an aggregate of 17,449,800 common shares of NanoXplore which represents approximately 16% of the issued and outstanding common shares of NanoXplore.

8. IMPAIRMENT OF ASSETS

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it will be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant, equipment totaling $5,436 related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company will be forced to close because the operation is entirely dependent on GM's facility in Oshawa. The impairment charge was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

During the fourth quarter of 2017, in conjunction with the Company's annual business planning cycle, the Company recorded an impairment charge on property, plant and equipment of $7,488. The impairment charge related to specific equipment at an operating facility in Canada included in the North America operating segment. The equipment is no longer in use and is not expected to be redeployed.

9. TRADE AND OTHER PAYABLES

		December 31, 2018		December 31, 2017
Trade accounts payable and accrued liabilities*	$	834,732	$	741,403
Estimated share repurchase liability		23,871		-
Foreign exchange forward contracts not accounted for as hedges (note 20(d))		-		146
Foreign exchange forward contracts accounted for as hedges (note 20(d))		4,096		-
	$	862,699	$	741,549

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

* Included in Trade accounts payable and accrued liabilities are contract liabilities related to advance consideration received from customers for tooling contracts, summarized below, for which revenue is recognized when the tool has been accepted by the customer.

		Contract Liabilities (Advance tooling consideration from Customers)
Balance as of December 31, 2016	$	12,866
Amount of opening balance recognized as tooling sales during the period		(10,964)
Advance cash consideration received during the period		16,598
Balance as of December 31, 2017	$	18,500
Amount of opening balance recognized as tooling sales during the period		(17,258)
Advance cash consideration received during the period		105,513
Balance as of December 31, 2018	$	106,755

10. PROVISIONS

	Restructuring	Claims and Litigations	Total
Net as of December 31, 2016	$ 5,248	$ 1,441	$ 6,689
Net additions	-	5,840	5,840
Amounts used during the period	(4,060)	(2,979)	(7,039)
Foreign currency translation adjustment	(72)	(370)	(442)
Net as of December 31, 2017	1,116	3,932	5,048
Net additions	2,073	2,046	4,119
Amounts used during the period	(1,116)	(2,453)	(3,569)
Foreign currency translation adjustment	-	(205)	(205)
Net as of December 31, 2018	$ 2,073	$ 3,320	$ 5,393

Based on estimated cash outflows, all provisions as at December 31, 2018 and December 31, 2017 are presented on the consolidated balance sheets as current liabilities.

(a) Restructuring

Additions to the restructuring accrual during 2018 totaled $2,073 and represent expected employee-related severance payouts and lease termination costs resulting from the planned closure of the operating facility in Ajax, Ontario as described in note 8.

(b) Claims and litigation

In the normal course of business, the Company may be involved in disputes with its suppliers, former employees or other third parties. Where the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

11. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 20.

	December 31, 2018	December 31, 2017
Banking facility	$ 657,803	$ 551,656
Equipment loans	82,914	102,361
	740,717	654,017
Current portion	(16,804)	(24,795)
	$ 723,913	$ 629,222

Terms and conditions of outstanding loans, as at December 31, 2018, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2018 Carrying amount	December 31, 2017 Carrying amount
Banking facility	USD	LIBOR + 1.70%	2022	$ 388,102	$ 321,152
	CAD	BA + 1.70%	2022	269,701	230,504
Equipment loans	EUR	1.05%	2024	32,076	-
	CAD	3.80%	2022	31,334	38,785
	EUR	2.54%	2025	16,093	15,561
	EUR	1.36%	2021	1,544	2,100
	EUR	3.35%	2019	966	2,504
	USD	3.80%	2022	463	413
	EUR	0.26%	2025	362	375
	BRL	5.00%	2020	76	135
	EUR	3.06%	2024	-	15,210
	EUR	4.93%	2023	-	15,131
	USD	4.25%	2018	-	8,917
	EUR	4.34%	2025	-	3,230
				$ 740,717	$ 654,017

On July 23, 2018, the Company's banking facility was amended to extend its maturity date and enhance certain provisions of the facility. The primary terms of the amended banking facility, with now a syndicate of ten banks (up from nine), include the following:

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of $370 million and US $420 million (up from $350 million and US $400 million, respectively);
- available asset based financing capacity of $300 million (up from $205 million);
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US $200 million (up from US $150 million);
- pricing terms at market rates and consistent with the previous facility;
- a maturity date of July 2022; and
- no mandatory principal repayment provisions.

As at December 31, 2018, the Company has drawn US$286,000 (December 31, 2017 - US$256,000) on the U.S. revolving credit line and $273,000 (December 31, 2017 - $233,000) on the Canadian revolving credit line. At December 31, 2018, the weighted average effective interest rate of the banking facility credit lines was 3.7% (December 31, 2017 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2018.

Deferred financing fees of $3,299 (December 31, 2017 - $2,827) have been netted against the carrying amount of the long-term debt.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23,000 ($36,886) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans, without penalty, at fixed annual interest rates of 3.06%, 4.34% and 4.93% that originally matured in 2024, 2025 and 2023, respectively.

On October 2, 2017, the Company finalized an equipment loan in the amount of $40,000 repayable in monthly installments over five years at a fixed interest rate of 3.80%.

Future annual minimum principal repayments as at December 31, 2018 are as follows:

Within one year	$	16,804
One to two years		13,887
Two to three years		13,901
Three to four years		673,985
Thereafter		22,140
	$	740,717
Less: Deferred financing fees		(3,299)
	$	737,418

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2016	$	721,403
Equipment loan proceeds		40,000
Repayments		(88,648)
Amortization of deferred financing fees		1,368
Foreign currency translation adjustment		(20,106)
Net as of December 31, 2017	$	654,017
Drawdowns		79,360
Equipment loan proceeds		36,886
Repayments		(57,710)
Deferred financing fee additions		(1,750)
Amortization of deferred financing fees		1,278
Foreign currency translation adjustment		28,636
Net as of December 31, 2018	$	740,717

12. PENSIONS AND OTHER POST RETIREMENT BENEFITS

The Company has defined benefit and non-pension post-retirement benefit plans in Canada, the United States and Germany. The defined benefit plans provide pensions based on years of service, years of contributions and earnings. The post-retirement benefit plans provide for the reimbursement of certain medical costs.

The plans are governed by the pension laws of the jurisdiction in which they are registered. The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. Local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

The assets of the defined benefit pension plans are held in segregated accounts isolated from the Company's assets. The plans are administered pursuant to applicable regulations, investment policies and procedures and to the mandate of an established pension committee. The pension committee oversees the administration of the pension plans, which include the following principal areas:

- Overseeing the funding, administration, communication and investment management of the plans;
- Selecting and monitoring the performance of all third parties performing duties in respect of the plans, including audit, actuarial and investment management services;
- Proposing, considering and approving amendments to the defined benefit pension plans;
- Proposing, considering and approving amendments of the investment policies and procedures;
- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

The assets of the defined benefit pension plans are invested and managed following all applicable regulations and investment policies and procedures, and reflect the characteristics and asset mix of each defined benefit pension plan. Investment and market return risk is managed by:

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;

- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

The pension plans are exposed to market risks such as changes in interest rates, inflation and fluctuations in investment values. The plans are also exposed to non-financial risks in the nature of membership mortality, demographic changes and regulatory change.

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

Accrued benefit obligation:

	Other post-retirement benefits	Pensions	December 31, 2018	Other post-retirement benefits	Pensions	December 31, 2017
Balance, beginning of the year	$ (44,621)	$ (69,546)	$ (114,167)	$ (48,111)	$ (64,551)	$ (112,662)
Benefits paid by the plan	1,543	2,090	3,633	1,619	1,946	3,565
Current service costs	(118)	(1,993)	(2,111)	(121)	(1,936)	(2,057)
Interest costs	(1,375)	(2,259)	(3,634)	(1,791)	(2,339)	(4,130)
Actuarial gains (losses) - experience	4,058	(160)	3,898	1,992	(35)	1,957
Actuarial gains (losses) - demographic assumptions	309	154	463	2,871	239	3,110
Actuarial gains (losses) - financial assumptions	2,344	4,884	7,228	(2,592)	(4,304)	(6,896)
Settlements	-	93	93	-	11	11
Foreign exchange translation	(1,381)	(2,527)	(3,908)	1,512	1,423	2,935
Balance, end of year	$ (39,241)	$ (69,264)	$ (108,505)	$ (44,621)	$ (69,546)	$ (114,167)

Plan assets:

	Other post-retirement benefits	Pensions	December 31, 2018	Other post-retirement benefits	Pensions	December 31, 2017
Fair value, beginning of the year	$ -	$ 48,909	$ 48,909	$ -	$ 45,799	$ 45,799
Contributions paid into the plans	1,543	3,299	4,842	1,619	849	2,468
Benefits paid by the plans	(1,543)	(2,090)	(3,633)	(1,619)	(1,946)	(3,565)
Interest income	-	1,720	1,720	-	1,736	1,736
Administrative costs	-	(41)	(41)	-	(36)	(36)
Remeasurements, return on plan assets recognized in other comprehensive income	-	(6,188)	(6,188)	-	3,875	3,875
Foreign exchange translation	-	1,629	1,629	-	(1,368)	(1,368)
Fair value, end of year	$ -	$ 47,238	$ 47,238	$ -	$ 48,909	$ 48,909
Accrued benefit liability, end of year	**(39,241)**	**(22,026)**	**(61,267)**	**(44,621)**	**(20,637)**	**(65,258)**

Pension benefit expense recognized in net income:

	Other post-retirement benefits	Pensions	Year ended December 31, 2018	Other post-retirement benefits	Pensions	Year ended December 31, 2017
Current service costs	$ 118	$ 1,993	$ 2,111	$ 121	$ 1,936	$ 2,057
Net interest cost	1,375	539	1,914	1,791	603	2,394
Administrative costs	-	41	41	-	36	36
Net benefit plan expense	$ 1,493	$ 2,573	$ 4,066	$ 1,912	$ 2,575	$ 4,487

Amounts recognized in other comprehensive income (loss) (before income taxes):

	Year ended December 31, 2018	Year ended December 31, 2017
Actuarial gains (losses)	$ 5,401	$ 2,046

Plan assets are primarily composed of pooled funds that invest in fixed income and equities, common stocks and bonds that are actively traded. Plan assets are composed of:

Description	December 31, 2018	December 31, 2017
Equity	83.0%	82.9%
Debt securities	17.0%	17.1%
	100.0%	100.0%

The defined benefit obligation and plan assets are composed by country as follows:

	Year ended December 31, 2018				Year ended December 31, 2017			
	Canada	USA	Germany	Total	Canada	USA	Germany	Total
Present value of funded obligations	$ (29,944)	$ (28,428)	$ -	$ (58,372)	$ (30,698)	$ (28,636)	$ -	$ (59,334)
Fair value of plan assets	26,611	20,627	-	47,238	27,464	21,446	-	48,910
Funding status of funded obligations	(3,333)	(7,801)	-	(11,134)	(3,234)	(7,190)	-	(10,424)
Present value of unfunded obligations	(24,609)	(16,313)	(9,211)	(50,133)	(26,212)	(20,195)	(8,427)	(54,834)
Total funded status of obligations	$ (27,942)	$ (24,114)	$ (9,211)	$ (61,267)	$ (29,446)	$ (27,385)	$ (8,427)	$ (65,258)

There are significant assumptions made in the calculations provided by the actuaries and it is the responsibility of the Company to determine which assumptions could result in a significant impact when determining the accrued benefit obligations and pension expense.

Principal actuarial assumptions, expressed as weighted averages, are summarized below:

Weighted average actuarial assumptions

	December 31, 2018	December 31, 2017
Defined benefit pension plans		
Discount rate used to calculate year end benefit obligation	3.7%	3.3%
Mortality table	CPM - RPP 2014 Priv	CPM - RPP 2014 Priv
Other post-employment benefit plans		
Discount rate to calculate year end benefit obligation	3.9%	3.4%
Mortality table	CPM - RPP 2014 Priv & Blue collar w/MP	CPM - RPP 2014 Priv & Blue collar w/MP
Health care trend rates		
Initial healthcare rate	5.5%	5.9%
Ultimate healthcare rate	4.2%	4.5%

Sensitivity of Key Assumptions

In the sensitivity analysis shown below, the Company determines the defined benefit obligation using the same method used to calculate the defined benefit obligations recognized in the consolidated balance sheets. Sensitivity is calculated by changing one assumption while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption will change at a time, and that some assumptions are correlated.

		Impact on defined benefit obligation December 31, 2018		Impact on defined benefit obligation December 31, 2017	
Pension Plans	Change in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.1%	Increase by 8.0%	Decrease by 7.5%	Increase by 8.5%
Life Expectancy	1 Year	Increase by 3.0%	Decrease by 3.0%	Increase by 3.1%	Decrease by 3.2%
Other post-retirement benefits					
Discount rate	0.50%	Decrease by 5.8%	Increase by 6.3%	Decrease by 6.4%	Increase by 7.2%
Medical costs	1 Year	Increase by 10.1%	Decrease by 8.4%	Increase by 11.1%	Decrease by 9.2%

13. INCOME TAXES

The components of income tax expense are as follows:

		Year ended December 31, 2018		Year ended December 31, 2017
Current income tax expense	$	(58,520)	$	(73,316)
Deferred income tax recovery (expense)		(2,423)		3,346
Total income tax expense	$	(60,943)	$	(69,970)

Taxes on items recognized in other comprehensive income or directly in equity in 2018 and 2017 were as follows:

Deferred tax charge on:		Year ended December 31, 2018		Year ended December 31, 2017
Employee benefit plan actuarial losses	$	(1,322)	$	(533)
US tax reform impact on employee benefit plans		-		(1,216)
Foreign currency translation		(1,043)		(257)
	$	(2,365)	$	(2,006)

Reconciliation of effective tax rate

The provision for income taxes differs from the result that would be obtained by applying statutory income tax rates to income before income taxes. The difference results from the following:

		Year ended December 31, 2018		Year ended December 31, 2017
Income before income taxes	$	246,826	$	229,236
Tax at Statutory income tax rate of 26.5% (2017 - 26.5%)		65,409		60,748
Increase (decrease) in income taxes resulting from:				
Utilization of losses previously not benefited		(982)		(4,861)
Tax audit settlements and changes in estimates		(124)		(986)
Revaluations due to foreign exchange and inflation		3,161		1,403
Rate differences and deductions allowed in foreign jurisdictions		(3,184)		(1,812)
Current year tax losses not benefited and withholding tax expensed		4,468		6,085
Recognition of previously unrecognized deferred tax assets		(9,908)		(12,758)
Stock-based compensation and other non-deductible expenses		2,103		2,838
Impact of US tax reforms		-		19,313
	$	60,943	$	69,970
Effective income tax rate applicable to income before income taxes		24.7%		30.5%

The movement of deferred tax assets are summarized below:

	Losses	Employee benefits	Interest and accruals	PPE and intangible assets	Other	Total
December 31, 2016	$ 113,396	$ 20,061	$ 25,132	$ 14,116	$ 6,997	$ 179,702
Benefit (charge) to income	(18,389)	(1,732)	(5,419)	(2,387)	156	(27,771)
Charge to other comprehensive income	-	(1,749)	-	-	(74)	(1,823)
Translation and other	(6,523)	(583)	(1,339)	801	(291)	(7,935)
December 31, 2017	88,484	15,997	18,374	12,530	6,788	142,173
Benefit (charge) to income	(8,573)	136	4,161	(2,655)	750	(6,181)
Benefit (charge) to other comprehensive income	-	(1,322)	-	-	1,562	240
Translation and other	6,227	1,400	1,529	347	(381)	9,122
December 31, 2018	$ 86,138	$ 16,211	$ 24,064	$ 10,222	$ 8,719	$ 145,354

The movement of deferred tax liabilities are summarized below:

	PPE and intangible assets	Other	Total
December 31, 2016	$ (110,778)	$ (7,456)	$ (118,234)
Benefit to income	29,917	1,200	31,117
Charge to other comprehensive income	-	(184)	(184)
Translation and other	5,179	(251)	4,928
December 31, 2017	(75,682)	(6,691)	(82,373)
Benefit (charge) to income	4,967	(1,208)	3,759
Charge to other comprehensive income	-	(2,605)	(2,605)
Translation and other	(3,754)	603	(3,151)
December 31, 2018	$ (74,469)	$ (9,901)	$ (84,370)

Net deferred asset at December 31, 2017	$ 59,800
Net deferred asset at December 31, 2018	$ 60,984

The Company has accumulated approximately $478,216 (December 31, 2017 - $527,749) in non-capital losses that are available to reduce taxable income in future years. If unused, these losses will expire as follows:

Year	
2019-2021	$ 2,238
2022-2026	7,227
2027-2038	426,845
Indefinite	41,906
	$ 478,216

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

Extensive changes to the US tax system were enacted on December 22, 2017, which substantially reduced the US federal corporate tax rate from 35% to 21% with effect from January 1, 2018. As a result of this change, the deferred tax asset in the US decreased as at December 31, 2017 with a corresponding one-time, non-cash increase in income tax expense of $19,313.

A deferred tax asset of $49,948 in the United States (December 31, 2017 - $60,369) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently, it has been recognized.

At December 31, 2018, deferred tax assets have not been recognized in respect of the following items:

	2018	2017
Tax losses in foreign jurisdictions	$ 40,128	$ 43,857
Deductible temporary differences in foreign jurisdictions	2,740	3,961
Other capital items	188	188
	$ 43,056	$ 48,006

Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect of the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately $640,546 at December 31, 2018 (December 31, 2017 - $612,983).

Future changes in tax law in any of the jurisdictions the Company has a presence could significantly impact the Company's provision for income taxes, taxes payable, and deferred tax asset and liability balances.

14. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance, December 31, 2016	86,484,667	$ 710,510
Exercise of stock options	261,167	2,915
Balance, December 31, 2017	86,745,834	$ 713,425
Exercise of stock options	233,750	2,523
Repurchase of common shares under normal course issuer bid	(2,150,400)	(17,699)
Estimated repurchase of common shares subsequent to year-end under an automatic share purchase program with a broker	(2,198,079)	(18,092)
Balance, December 31, 2018 (including estimated repurchase of common shares subsequent to year-end)	82,631,105	$ 680,157

The Company is authorized to issue an unlimited number of common shares. The Company's shares have no par value.

Repurchase of capital stock:

During 2018, the Company received approval from the TSX to acquire for cancellation, by way of normal course issuer bid ("NCIB"), up to 4,348,479 common shares of the Company. The bid commenced on August 31, 2018 and spans a 12-month period.

Since the commencement of the NCIB to December 31, 2018, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of $25,513, resulting in a decrease to stated capital of $17,699 and a decrease to retained earnings of $7,814. The shares were purchased and cancelled directly under the NCIB.

The Company entered into an Automatic Share Purchase Program ("ASPP") with a broker that allows the purchase of common shares for cancellation unto the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018 an obligation for the repurchase of $23,871 (2017 – nil) was recognized under the ASPP in trade and other payables.

Stock options

The Company has one stock option plan for key employees. Under the plan the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with the stock option plan and the policies of the Company. The options have a maximum term of 10 years and generally vest between zero and five years.

The following is a summary of the activity of the outstanding share purchase options:

	Year ended December 31, 2018			Year ended December 31, 2017		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	1,844,450	$	10.12	3,010,617	$	11.38
Granted during the period	820,000		13.54	-		-
Exercised during the period	(233,750)		8.16	(261,167)		8.09
Cancelled during the period	-		-	(905,000)		14.91
Balance, end of period	2,430,700	$	11.46	1,844,450	$	10.12
Options exercisable, end of period	1,635,700	$	10.49	1,844,450	$	10.12

The following is a summary of the issued and outstanding common share purchase options as at December 31, 2018:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$7.00 - 8.70	533,700	2009 - 2012	2019 - 2022
$10.67 - 16.06	1,897,000	2012 - 2018	2022 - 2028
Total share purchase options	2,430,700		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes-Merton option valuation model. The Black-Scholes-Merton option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

The key assumptions, on a weighted average basis, used in the valuation of options granted during the year ended December 31, 2018 are shown in the table below:

		Year ended December 31, 2018
Expected volatility		36.67%
Risk free interest rate		2.19%
Expected life (years)		4.88
Dividend yield		1.36%
Weighted average fair value of options granted	$	3.82

There were no options granted during the year ended December 31, 2017. For the year ended December 31, 2018, the Company expensed $651 (2017 - $123), to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

Deferred Share Unit Plan

The following is a summary of the issued and outstanding DSUs as at December 31, 2018 and 2017:

	Year ended December 31, 2018	Year ended December 31, 2017
Units outstanding, beginning of period	123,313	67,837
Units granted during the period	49,551	54,588
Units redeemed during the period	-	-
Units for dividends earned during the period (issued twice a year)	1,710	888
Units outstanding, end of period	174,574	123,313

The DSUs granted during the years ended December 31, 2018 and 2017 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of $13.27 and $10.99, respectively, on the date of grant. At December 31, 2018, the fair value of all outstanding DSUs amounted to $1,806 (December 31, 2017 - $1,939). For the year ended December 31, 2018, DSU compensation expense/benefit

reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to a benefit of $131 (2017 – expense of $1,371), recorded in selling, general and administrative expense.

Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSUs and PSUs as at December 31, 2018 and 2017:

	RSUs	PSUs	Total
Units outstanding, December 31, 2016	-	-	-
Units granted during the period	77,090	77,090	154,180
Units for dividends earned during the period	214	214	428
Units redeemed during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, December 31, 2017	77,304	77,304	154,608
Units granted during the period	211,194	211,194	422,388
Units for dividends earned during the period	712	712	1,424
Units redeemed during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, December 31, 2018	289,210	289,210	578,420

The RSUs and PSUs granted during the years ended December 31, 2018 and 2017 had a weighted average fair value per unit of $15.49 and $11.92, respectively, on the date of grant. For the year ended December 31, 2018, RSU and PSU compensation expense reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to $2,585 (2017 - $1,380), recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at December 31, 2018 was $2,868 (December 31, 2017 - $803) and will be recognized in income over the next three years as the RSUs and PSUs vest.

The key assumptions, on a weighted average basis, used in the valuation of PSUs granted during the years ended December 31, 2018 and 2017 are shown in the table below:

	2018	2017
Expected life (years)	2.49	2.38
Risk free interest rate	2.05%	1.15%

15. EARNINGS PER SHARE

Details of the calculations of earnings per share are set out below:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,548,599	$ 2.15	86,527,271	$ 1.84
Effect of dilutive securities:				
Stock options	439,416	(0.01)	252,035	-
Diluted	86,988,015	$ 2.14	86,779,306	$ 1.84

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For the year ended December 31, 2018, 100,000 options (2017 - 767,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. RESEARCH AND DEVELOPMENT COSTS

	Year ended December 31, 2018	Year ended December 31, 2017
Research and development costs, gross	$ 29,393	$ 27,571
Capitalized development costs	(14,171)	(14,211)
Amortization of capitalized development costs	11,342	13,237
Net expense	$ 26,564	$ 26,597

17. PERSONNEL EXPENSES

The statements of operations present operating expenses by function. Operating expenses include the following personnel-related expenses:

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries and other short-term employee benefits		$ 889,117	$ 873,731
Expenses related to pension and post-retirement benefits	12	4,066	4,487
RSU and PSU compensation expense (including changes in fair value during the year)	14	2,585	1,380
DSU compensation expense (including changes in fair value during the year)	14	(131)	1,371
Stock-based compensation expense	14	651	123
		$ 896,288	$ 881,092

18. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

	Year ended December 31, 2018	Year ended December 31, 2017
Debt interest, gross	$ (30,861)	$ (25,817)
Capitalized interest - at an average rate of 3.33% (2017 - 2.8%)	3,503	3,290
Finance expense	$ (27,358)	$ (22,527)

	Year ended December 31, 2018	Year ended December 31, 2017
Net unrealized foreign exchange gain (loss)	$ (768)	$ 1,167
Unrealized gain (loss) on derivative instruments (note 7)	(1,887)	3,697
Other income, net	367	275
Other finance income (expense)	(2,288)	5,139

19. OPERATING SEGMENTS

The Company designs, engineers, manufactures, and sells quality metal parts, assemblies, and fluid management systems primarily serving the global automotive industry. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented on a geographic basis between North America, Europe and Rest of the World.

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated financial statements. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

The following is a summary of selected data for each of the Company's operating segments:

	Year ended December 31, 2018				
	Production Sales	Tooling Sales	Total Sales	Property, plant and equipment	Operating Income
North America					
Canada	$ 622,576	$ 96,129	$ 718,705	$ 160,325	
USA	1,186,013	106,568	1,292,581	480,016	
Mexico	982,086	94,331	1,076,417	483,013	
Eliminations	(163,162)	(97,014)	(260,176)	-	
	$ 2,627,513	$ 200,014	$ 2,827,527	$ 1,123,354	$ 229,117
Europe					
Germany	460,115	34,038	494,153	152,738	
Spain	141,440	19,885	161,325	113,048	
Slovakia	53,301	6,269	59,570	14,186	
Eliminations	-	(1,187)	(1,187)	-	
	654,856	59,005	713,861	279,972	46,790
Rest of the World	121,112	14,210	135,322	78,126	565
Eliminations	(9,751)	(4,059)	(13,810)	-	-
	$ 3,393,730	$ 269,170	$ 3,662,900	$ 1,481,452	$ 276,472

	Year ended December 31, 2017				
	Production Sales	Tooling Sales	Total Sales	Property, plant and equipment	Operating Income
North America					
Canada	$ 709,636	$ 69,294	$ 778,930	$ 158,213	
USA	1,332,550	28,246	1,360,796	400,618	
Mexico	868,644	86,056	954,700	410,218	
Eliminations	(156,254)	(24,386)	(180,640)	-	
	$ 2,754,576	$ 159,210	$ 2,913,786	$ 969,049	$ 213,493
Europe					
Germany	405,604	28,202	433,806	134,366	
Spain	151,666	11,166	162,832	91,157	
Slovakia	54,881	6,145	61,026	14,323	
Eliminations	(178)	(457)	(635)	-	
	611,973	45,056	657,029	239,846	38,388
Rest of the World	122,561	9,506	132,067	73,729	(5,257)
Eliminations	(9,552)	(2,831)	(12,383)	-	-
	$ 3,479,558	$ 210,941	$ 3,690,499	$ 1,282,624	$ 246,624

20. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, other assets, trade and other payables, long-term debt, and foreign exchange forward contracts.

Fair Value

IFRS 13 "*Fair Value Measurement*" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the fair value hierarchy under which the Company's applicable financial instruments are valued:

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 70,162	$ 70,162	$ -	$ -
Other assets (note 7)	$ 10,781	$ 8,572	$ 2,209	$ -
Foreign exchange forward contracts not accounted for as hedges (note 3)	$ 66	$ -	$ 66	$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	$ (4,096)	$ -	$ (4,096)	$ -

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 71,193	$ 71,193	$ -	$ -
Other assets (note 7)	$ 15,265	$ 11,275	$ 3,990	$ -
Foreign exchange forward contracts not accounted for as hedges (note 9)	$ (146)	$ -	$ (146)	$ -

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

December 31, 2018	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Financial assets at amortized cost**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 597,730	$ -	$ 597,730	$ 597,730
Other assets (note 7)	2,209	8,572	-	-	10,781	10,781
Foreign exchange forward contracts not accounted for as hedges	66	-	-	-	66	66
	2,275	8,572	597,730	-	608,577	608,577
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(834,732)	(834,732)	(834,732)
Estimated share repurchase liability	-	-	-	(23,871)	(23,871)	(23,871)
Long-term debt	-	-	-	(740,717)	(740,717)	(740,717)
Foreign exchange forward contracts accounted for as hedges	-	(4,096)	-	-	(4,096)	(4,096)
	-	(4,096)	-	(1,599,320)	(1,603,416)	(1,603,416)
Net financial assets (liabilities)	$ 2,275	$ 4,476	$ 597,730	$ (1,599,320)	$ (994,839)	$ (994,839)

December 31, 2017	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Financial assets at amortized cost**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 556,049	$ -	$ 556,049	$ 556,049
Other assets (note 7)	3,990	11,275	-	-	15,265	15,265
	3,990	11,275	556,049	-	571,314	571,314
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(741,403)	(741,403)	(741,403)
Long-term debt	-	-	-	(654,017)	(654,017)	(654,017)
Foreign exchange forward contracts not accounted for as hedges	(146)	-	-	-	(146)	(146)
	(146)	-	-	(1,395,420)	(1,395,566)	(1,395,566)
Net financial assets (liabilities)	$ 3,844	$ 11,275	$ 556,049	$ (1,395,420)	$ (824,252)	$ (824,252)

The fair values of trade and other receivables and trade and other payables approximate their carrying amounts due to the short-term maturities of these instruments. The estimated fair value of long-term debt approximates its carrying value since debt is subject to terms and conditions similar to those available to the Company for instruments with comparable terms, and the interest rates are market-based.

Risk Management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk, currency risk and market price risk related to publicly-traded investments. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

(a) Credit risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, trade and other receivables, and foreign exchange forward contracts.

Credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are placed with financial institutions with high credit ratings.

The credit risk associated with foreign exchange forward contracts arises from the possibility that the counterparty to one of these contracts fails to perform according to the terms of the contract. Credit risk associated with foreign exchange forward contracts is minimized by entering into such transactions with major Canadian and U.S. financial institutions.

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 29.5%, 28.0%, and 15.7% of its production sales for the year ended December 31, 2018 (2017 - 32.5%, 28.1% and 14.9%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at December 31, 2018 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the year were minimal.

The aging of trade receivables at the reporting date was as follows:

	December 31, 2018	December 31, 2017
0-60 days	$ 540,728	$ 501,336
61-90 days	18,437	19,853
Greater than 90 days	26,625	17,641
	$ 585,790	$ 538,830

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At December 31, 2018, the Company had cash of $70,162 (2017 - $71,193) and banking facilities available as discussed in note 11. All of the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

A summary of contractual maturities of long-term debt is provided in note 11.

(c) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk as a significant portion of the Company's long-term debt bears interest at rates linked to the US prime, Canadian prime, one month LIBOR or the Banker's Acceptance rates. The interest on the bank facility fluctuates depending on the achievement of certain financial debt ratios, and may cause the interest rate to increase by a maximum of 1.0%.

The interest rate profile of the Company's long-term debt was as follows:

	Carrying amount	
	December 31, 2018	December 31, 2017
Variable rate instruments	$ 657,803	$ 551,656
Fixed rate instruments	82,914	102,361
	$ 740,717	$ 654,017

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $6,010 (2017 - $6,015) on the Company's consolidated financial results for the year ended December 31, 2018.

(d) Currency risk

Currency risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company undertakes revenue and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At December 31, 2018, the Company had committed to the following foreign exchange contracts:

Foreign exchange forward contracts not accounted for as hedges and fair valued through profit or loss

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	40,000	1.3462	1
Buy Mexican Peso	$	23,857	20.1200	1

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax gain of $66 and was recorded in trade and other receivables (December 31, 2017 - loss of $146 and was recorded in trade and other payables).

Foreign exchange forward contracts accounted for as hedges and fair valued through other comprehensive income

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	57,900	1.2780	48

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax loss of $4,096 and was recorded in trade and other payables (December 31, 2017 - nil).

The Company's exposure to foreign currency risk reported in the foreign currency was as follows:

December 31, 2018		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	297,895	€	66,826	$	84,181	R$	26,348	¥	89,887
Trade and other payables		(383,618)		(88,627)		(219,130)		(37,578)		(104,990)
Long-term debt		(286,341)		(32,787)		-		(218)		-
	$	(372,064)	€	(54,588)	$	(134,949)	R$	(11,448)	¥	(15,103)

December 31, 2017		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	282,095	€	64,926	$	44,972	R$	19,424	¥	174,033
Trade and other payables		(330,020)		(91,091)		(163,168)		(25,341)		(116,149)
Long-term debt		(263,701)		(35,949)		-		(356)		-
	$	(311,626)	€	(62,114)	$	(118,196)	R$	(6,273)	¥	57,884

The following summary illustrates the fluctuations in the exchange rates applied during the years ended December 31, 2018 and 2017:

	Average rate		Closing rate	
	Year ended December 31, 2018	Year ended December 31, 2017	December 31, 2018	December 31, 2017
USD	1.2910	1.3029	1.3570	1.2571
EURO	1.5286	1.4576	1.5567	1.5089
PESO	0.0674	0.0688	0.0686	0.0639
BRL	0.3594	0.4077	0.3498	0.3795
CNY	0.1960	0.1920	0.1985	0.1924

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at December 31, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2018 by the amounts shown below, assuming all other variables remain constant:

	Year ended December 31, 2018	Year ended December 31, 2017
USD	$ (12,086)	$ (6,333)
EURO	(5,454)	(4,559)
BRL	304	938
CNY	31	(305)
	$ (17,205)	$ (10,259)

A weakening of the Canadian dollar against the above currencies at December 31, would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Market price risk related to publicly-traded investments

Market price risk related to publicly-traded investments refers to the risk that changes or fluctuations in the market prices of the Company's investments in publicly-traded companies will affect income, cash flows or the value of financial instruments. The Company manages risks related to such changes by regularly reviewing publicly available information related to these investments to ensure that any risks are within reasonable levels of risk tolerance. The Company does not engage in risk management practices such as hedging, derivatives, or short selling with respect to publicly-traded investments.

(f) Capital risk management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with complementary acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and retained earnings, and debt.

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

In addition to debt and equity the Company may use operating leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

21. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain manufacturing facilities, office equipment and vehicles under operating leases and enters into purchase obligations in the normal course of business related to inventory, services, tooling and property, plant and equipment. The aggregate expected payments towards those obligations are as follows:

		December 31, 2018		December 31, 2017
Future minimum lease payments under operating leases	$	240,052	$	210,189
Capital and other purchase commitments (all due in less than one year)		369,928		416,130
	$	609,980	$	626,319

Future minimum lease payments under operating leases are due as follows:

		December 31, 2018		December 31, 2017
Less than one year	$	39,601	$	34,735
Between one and five years		115,724		100,090
More than five years		84,727		75,364
	$	240,052	$	210,189

Contingencies

The Company has contingent liabilities relating to legal and tax proceedings arising in the normal course of its business. Known claims and litigation involving the Company or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks. Although the outcome of the proceedings in progress cannot be predicted, the Company does not believe they will have a material impact on the Company's consolidated financial position. However, new proceedings may be initiated against the Company as a result of facts or circumstances unknown at the date of these consolidated financial statements or for which the risk cannot yet be determined or quantified. Such proceedings could have a significant adverse impact on the Company's financial results.

Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately $74,319 (BRL $212,462) including interest and penalties to December 31, 2018 (December 31, 2017- $83,110 or BRL 219,460). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling $43,059 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

22. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At December 31, 2018, the amount of off-balance sheet program financing was $58,871 (December 31, 2017 - $75,189) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2018 or 2017. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.

23. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include the Directors and the most Senior Corporate Officers of the Company that are primarily responsible for planning, directing, and controlling the Company's business activities.

The compensation expense associated with key management for employee services was included in employee salaries and benefits as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries, pension and other short-term employee benefits	$ 13,580	$ 12,487
RSU, PSU and DSU compensation expense (including changes in fair value during the year)	1,665	2,751
Stock-based compensation expense	381	123
Termination benefits *	-	1,767
Net expense	$ 15,626	$ 17,128

*In 2017, David Rashid ceased to be an Executive Vice President of Operations of the Company. Upon his departure, David Rashid was entitled to the termination benefit as set out in his employment contract in the aggregate amount of $1.8 million payable over a twelve-month period. The $1.8 million termination benefit was set up as a liability and expensed during 2017.

24. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company as at December 31, 2018:

	Country of incorporation	Ownership interest
Martinrea Metallic Canada Inc.	Canada	100%
Martinrea Automotive Systems Canada Ltd.	Canada	100%
Martinrea Automotive Inc.	Canada	100%
Royal Automotive Group Ltd.	Canada	100%
Martinrea Metal Holdings (USA), Inc.	United States of America	100%
Martinrea Pilot Acquisition Inc.	Canada	100%
Martinrea Slovakia Fluid Systems S.R.O.	Slovakia	100%
Martinrea Pilot Acquisition II LLC	United States of America	100%
Martinrea Internacional de Mexico, S.A. de C.V.	Mexico	100%
Martinrea China Holdings Inc.	Canada	100%
Martinrea Honsel Holdings B.V.	Netherlands	100%
Martinrea Automotive Japan Inc.	Japan	100%
Agility Tooling Inc.	Canada	100%

CORPORATE INFORMATION

Corporate Head Office

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W: www.martinrea.com

Board of Directors

Rob Wildeboer, Executive Chairman
Martinrea International Inc.

Scott Balfour [(1)]
President and Chief Executive Officer
Emera Inc.

Pat D'Eramo
President and Chief Executive Officer, Martinrea International Inc.

Roman Doroniuk [(1)]
Independent Consultant, Financial and Strategic Advisory Services

Terry Lyons [(2), (3)]
Corporate Director and Lead Director, Canaccord Genuity Group Inc.

Frank Macher
Senior Advisor to Teijin Corporation, Advisor to Achates Power

Fred Olson [(1), (2), (3), (4)]
Retired, President and CEO, Webasto Product North America

Sandra Pupatello [(3)]
President, Canadian International Avenues Ltd.

Dave Schoch [(2)]
Retired, Group Vice President and President, Asia Pacific, and Chairman and Chief Executive Officer, Ford China

(1) Member, Human Resources and Compensation Committee
(2) Member, Audit Committee
(3) Member, Corporate Governance and Nominating Committee
(4) Lead Director

Corporate Executive Officers

Pat D'Eramo, President and Chief Executive Officer
Rob Wildeboer, Executive Chairman
Fred Di Tosto, Chief Financial Officer
Armando Pagliari, Executive VP, Human Resources

Certificate Transfer and Address Change

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
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F: 1 866 249-7775
E: service@computershare.com

Registrar and Transfer Agent

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Shareholder Inquiries/Investor Relations

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Stock Listing

The Toronto Stock Exchange (TSX: MRE)

MARTINREA INTERNATIONAL INC.

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