

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the three months ended March 31, 2014**

The following management discussion and analysis (“MD&A”) was prepared as of May 15, 2014 and should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements for the three months ended March 31, 2014 (“interim consolidated financial statements”), as well as the Company’s audited consolidated financial statements and MD&A for the year ended December 31, 2013 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, 2013, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (“Martinrea” or the “Company”) is a leader in the production and development of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs over 13,000 skilled and motivated people in 38 plants in Canada, the United States, Mexico, Brazil, Europe and China.

Martinrea’s objective is to develop a state-of-the-art international metal forming and fluid systems business that will continue to be and further become a key supplier in the automotive industry. Growth will be prudent, profitable and based on innovation. The backbone of future growth is the development of talented people. The significant development of the Company since 2002 has reflected this business strategy and contributed to the growing profitability of the Company.

Results of operations include certain unusual items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. This has required the use of non-IFRS measures in the Company’s disclosures that management believes provides the most appropriate basis on which to evaluate the Company’s results.

**OVERALL RESULTS**

	Three months ended March 31, 2014	Three months ended March 31, 2013	\$ Change	% Change
Sales	\$ 864,493	\$ 769,122	95,371	12.4%
Gross Margin	87,479	75,715	11,764	15.5%
Operating Income	37,559	34,673	2,886	8.3%
Net Earnings for the period	26,659	23,505	3,154	13.4%
Net Earnings Attributable to Equity Holders of the Company	\$ 16,691	\$ 19,888	(3,197)	(16.1%)
Net Earnings per share – Basic and Diluted	\$ 0.20	\$ 0.24	(0.04)	(16.7%)
Unusual Items*	\$ 865	\$ -	865	0.0%
Adjusted Net Earnings Attributable to Equity Holders of the Company*	17,556	19,888	(2,332)	(11.7%)
Adjusted Net Earnings per share* - Basic and Diluted	\$ 0.21	\$ 0.24	(0.03)	(12.5%)

**\* Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). However, the Company has included certain non-IFRS financial measures and ratios in this MD&A that the Company believes provides useful information in measuring the financial performance and financial condition of the Company. These measures 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 the other financial measures determined in accordance with IFRS. Non-IFRS measures referred to in the analysis include “adjusted net earnings” and “adjusted net earnings per share on a basic and diluted basis” and are defined in Table A under “Adjustments to Net Earnings” of this MD&A.

## **REVENUE**

### ***Three months ended March 31, 2014 to three months ended March 31, 2013 comparison***

	Three months ended March 31, 2014		Three months ended March 31, 2013		\$ Change	% Change
North America	\$	663,664	\$	610,531	53,133	8.7%
Europe		183,653		141,811	41,842	29.5%
Rest of World		17,176		16,780	396	2.4%
Revenue	\$	864,493	\$	769,122	95,371	12.4%

The Company's consolidated revenues for the first quarter of 2014 increased by \$95.4 million or 12.4% to \$864.5 million as compared to \$769.1 million for the first quarter of 2013. Revenues increased year-over-year across all operating segments.

Revenues for the first quarter of 2014 in the Company's North America operating segment increased by \$53.1 million or 8.7% to \$663.7 million from \$610.5 million for the first quarter of 2013. The increase was due to an overall increase in North American OEM light vehicle production, in particular year-over-year increased production volumes on the GM Equinox/Terrain, Ford Fusion and Ford Escape, three of the Company's largest platforms, the launch of new programs during or subsequent to the first quarter of 2013, including GM's full size pick-up trucks, Chevrolet Impala and BMW X5, and the impact of foreign exchange on the translation of U.S. denominated production revenue, which had a positive impact on revenue for the first quarter of 2014 of \$45.3 million. The increase in revenue was partially offset by a \$29.1 million decrease in tooling revenues, which is typically dependent on the timing of tooling construction and final inspection and acceptance by the customer.

Revenues for the first quarter of 2014 in the Company's Europe operating segment, comprised predominately of the European operations of Martinrea Honsel, increased by \$41.8 million or 29.5% to \$183.7 million from \$141.8 million for the first quarter of 2013. The increase was due to the launch of new incremental aluminum business with Jaguar Land Rover including the sub-frame and shock towers for the new Range Rover Sport; an overall year-over-year increase in European OEM light vehicle production; a \$6.1 million increase in tooling revenues; an \$18.7 million benefit from the impact of foreign exchange on the translation of Euro denominated production revenue; and year-over-year increased production revenues in the Company's plant in Slovakia, which continues to ramp-up and launch its backlog of business.

Revenues for the first quarter of 2014 in the Company's Rest of World operating segment, currently comprised of the Brazilian operations of Martinrea Honsel and a facility in China in its early stages, increased by \$0.4 million or 2.4% to \$17.2 million from \$16.8 million for the first quarter of 2013. The increase can be attributed to the launch of the Company's first product in China for the Ford CD4 program, which began to ramp up at the end of the second quarter of 2013, partially offset by a year-over-year decrease in production volumes in Brazil, the impact of foreign exchange on the translation of Brazilian Real denominated production revenue, which had a negative impact on revenue for the first quarter of 2014 of \$0.8 million, and a year-over-year decrease in tooling revenue of \$0.8 million.

Overall tooling revenue decreased by \$23.8 million from \$50.7 million for the first quarter of 2013 to \$26.9 million for the first quarter of 2014.

## **GROSS MARGIN**

### ***Three months ended March 31, 2014 to three months ended March 31, 2013 comparison***

	Three months ended March 31, 2014		Three months ended March 31, 2013		\$ Change	% Change
Gross margin	\$	87,479	\$	75,715	11,764	15.5%
% of revenue		10.1%		9.8%		

The gross margin percentage for the first quarter of 2014 of 10.1% increased as a percentage of revenue by 0.3% as compared to the gross margin percentage for the first quarter of 2013 of 9.8%. The increase in gross margin as a percentage of revenue was generally due to:

- higher capacity utilization from an overall increase in year-over-year production revenues including the launch of new programs subsequent or during the first quarter of 2013 (as noted above);
- productivity and efficiency improvements at certain operating facilities, in particular the Martinrea Honsel operations in Germany;
- improved pricing on certain long-term customer contracts in the operations of Martinrea Honsel; and
- a decrease in tooling revenue which typically earns low or no margins for the Company.

These factors were partially offset by:

- an increase in integrator or assembly work which typically generates lower margins as a percentage of revenue, although return on capital tends to be higher;
- program specific launch costs related to new programs that recently launched or are set to launch and ramp up over the next few quarters including the BMW X5, Ford Transit, Ford 2.3 L aluminum engine block, Chrysler 200 and Lincoln MKC; and
- operational inefficiencies at certain operating facilities, in particular, Hopkinsville, Kentucky (see below).

The performance of the Company's operating facility in Hopkinsville, Kentucky continued to be impacted by launch costs and other operational expenses stemming from the operational issues experienced by the facility during the fourth quarter of 2013. The issues were rooted in serious equipment failures on two of the plant's large tonnage presses which has resulted in incremental premium costs as the facility deals with new program launches, customer-requested engineering changes, which have impacted productivity, and the overall ramp-up in production volumes being experienced in the automotive industry. The presses are currently operational but are not performing at optimal levels. Upgrades to the presses are planned during the 2014 summer and December holiday shutdowns in order to reduce the risk of any further failures and improve the performance of the presses. Notwithstanding the planned upgrades, progress is being made at improving efficiencies at this facility and costs are expected to subside, and margins improve, as operational improvements are made. The facility is focused on cost reduction and improving efficiency with the objective of expanding margin.

In addition to the expected productivity and efficiency improvements at certain operating facilities, in particular in Hopkinsville, Kentucky (as noted above), gross margin is expected to be positively impacted by incremental new business as the Company continues to work through the launch of a significant backlog of business over the next 36 months including the following awarded programs in addition to the programs referred to above: the next wave of Ford CD4 in Europe and North America, GM Omega aluminum engine cradle, GM 31XX (Traverse, SRX), Jaguar LandRover aluminum swivel bearing, Ford Transit, Nissan aluminum I4 engine block, Daimler aluminum transmission casing and engine cradle for the VW Golf.

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

##### ***Three months ended March 31, 2014 to three months ended March 31, 2013 comparison***

	Three months ended March 31, 2014	Three months ended March 31, 2013	\$ Change	% Change
Selling, general & administrative	\$ 43,331	\$ 34,803	8,528	24.5%
% of revenue	5.0%	4.5%		

SG&A expense, as a percentage of revenue, before adjustments, was 5.0% for the first quarter of 2014, compared to 4.5% for the first quarter of 2013. Excluding \$1.2 million in external legal and forensic accounting costs related to litigation incurred during the first quarter of 2014 as explained in Table A under "Adjustments to Net Earnings", SG&A expense as a percentage of revenue increased year-over-year to 4.9% from 4.5% for the comparative period of 2013. The increase can be attributed to higher dollar costs due to investments made to support launches, future growth and new and/or expanded facilities.

SG&A expense, before adjustments, for the first quarter of 2014 increased by \$8.5 million to \$43.3 million as compared to \$34.8 million for the first quarter of 2013. Excluding \$1.2 million in external legal and forensic accounting costs related to litigation incurred during the first quarter of 2014 as explained in Table A under "Adjustments to Net Earnings", SG&A expense for the first quarter of 2014 increased by \$7.4 million to \$42.2 million from \$34.8 million for the comparative period of 2013. The increase can be attributed to

higher employee incentive compensation, an increase in travel-related costs, costs incurred at new and/or expanded facilities including the Company's new facility in China, and incremental employment levels to support the growth in the business.

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

*Three months ended March 31, 2014 to three months ended March 31, 2013 comparison*

	Three months ended March 31, 2014	Three months ended March 31, 2013	\$ Change	% Change
Depreciation of PP&E (production)	\$ 24,131	\$ 21,075	3,056	14.5%
Depreciation of PP&E (non-production)	1,464	1,474	(10)	(0.7%)
Amortization of customer contracts and relationships	343	486	(143)	(29.4%)
<b>Total depreciation and amortization</b>	<b>\$ 25,938</b>	<b>\$ 23,035</b>	<b>2,903</b>	<b>12.6%</b>

Total depreciation and amortization expense for the first quarter of 2014 increased by \$2.9 million to \$25.9 million as compared to \$23.0 million for the first quarter of 2013. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base resulting from a growing book of business. A significant portion of the Company's recent investment relating to various new program launches was put to use during or subsequent to the first quarter of 2013 as the Company continues to work through robust launch activity. The Company continues to make significant investments in the business in light of a large backlog of business and a growing global footprint.

Depreciation of PP&E (production) expense as a percentage of revenue remained relatively consistent year-over-year at 2.8% for the first quarter of 2014 compared to 2.7% for the first quarter 2013.

## **ADJUSTMENTS TO NET EARNINGS** **(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

Adjusted net earnings exclude certain unusual items, as set out in the table below and described in the notes thereto. Management uses adjusted earnings 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 March 31, 2014 (a)	Three months ended March 31, 2013 (b)	(a-b) Change
<b>NET EARNINGS (A)</b>	<b>\$16,691</b>	<b>\$19,888</b>	<b>\$(3,197)</b>
<b>Add back - Unusual Items:</b>			
External legal and forensic accounting costs related to litigation (1)	1,153	-	1,153
<b>TOTAL UNUSUAL ITEMS BEFORE TAX</b>	<b>\$1,153</b>	<b>-</b>	<b>\$1,153</b>
Tax impact of above item	(288)	-	(288)
<b>TOTAL UNUSUAL ITEMS AFTER TAX (B)</b>	<b>\$865</b>	<b>-</b>	<b>\$865</b>
<b>ADJUSTED NET EARNINGS (A + B)</b>	<b>\$17,556</b>	<b>\$19,888</b>	<b>\$(2,332)</b>
Number of Shares Outstanding – Basic ('000)	84,480	83,757	
Adjusted Basic Net Earnings Per Share	\$0.21	\$0.24	
Number of Shares Outstanding – Diluted ('000)	85,044	84,364	
Adjusted Diluted Net Earnings Per Share	\$0.21	\$0.24	

## (1) External Legal and Forensic Accounting Costs Related to Litigation

As previously disclosed, on September 26, 2013, a former director of the Company filed a statement of claim against the Company making certain allegations against the Company, certain directors and officers, and two Martinrea suppliers. Supervision of the litigation has been delegated to a Special Committee of the Board. Legal counsel has been retained to advise the Special Committee with respect to litigation and legal matters. The Special Committee has retained PricewaterhouseCoopers LLP as its independent financial experts to provide such financial and accounting advice and forensic services as the Special Committee may deem appropriate.

In addition, the Company and certain of its officers and directors have been served with a Notice of Action and Statement of Claim that was filed in Windsor, Ontario by an alleged shareholder (the "Statement of Claim"). In the Statement of Claim, the plaintiff seeks, among other things: an order certifying the proceeding as a class proceeding; a declaration that the defendants made negligent misrepresentations in the time period from March 6, 2006 to December 18, 2013 by representing that the Company's financial statements were prepared in accordance with GAAP and/or IFRS; an order granting leave to amend the claim to assert causes of action under the secondary market liability provisions of the Securities Act (Ontario); and special and general damages and costs of notice in the class action in the sum of \$100 million.

The costs added back for adjusted net income purposes reflects the legal and forensic accounting costs incurred by the Company in relation to these matters that are not covered by insurance (recorded in SG&A expense). Further amounts related to the costs expensed to date may be recovered from the Company's insurance providers upon completion of their review of the costs incurred.

### **NET EARNINGS** **(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

#### *Three months ended March 31, 2014 to three months ended March 31, 2013 comparison*

	Three months ended		Three months ended		Change	% Change
	March 31, 2014		March 31, 2013			
Net Earnings	\$	16,691	\$	19,888	(3,197)	(16.1%)
Adjusted net earnings	\$	17,556	\$	19,888	(2,332)	(11.7%)
Net Earnings per common share						
Basic	\$	0.20	\$	0.24		
Diluted	\$	0.20	\$	0.24		
Adjusted Net Earnings per common share						
Basic	\$	0.21	\$	0.24		
Diluted	\$	0.21	\$	0.24		

Net earnings, before adjustments, for the first quarter of 2014 decreased by \$3.2 million to \$16.7 million from \$19.9 million for the first quarter of 2013. Excluding \$1.2 million in external legal and forensic accounting costs related to litigation incurred during the first quarter of 2014, as explained in Table A under "Adjustments to Net Earnings", the net earnings for the first quarter of 2014 decreased to \$17.6 million or \$0.21 per share, on a basic and diluted basis, in comparison to adjusted net earnings of \$19.9 million or \$0.24 per share, on a basic and diluted basis, for the first quarter of 2013.

The net earnings for the first quarter of 2014, as compared to the first quarter of 2013, were negatively impacted by the following:

- program specific launch costs related to new programs that recently launched or are set to launch and ramp up over the next few quarters including the BMW X5, Ford Transit, Ford 2.3 L aluminum engine block, Chrysler 200 and the Lincoln MKC;
- lower margins as a result of operational inefficiencies at certain operating facilities, in particular, Hopkinsville, Kentucky (as discussed above).
- year-over-year increases in SG&A expense as previously discussed, research and development expense as a result of increased amortization of development costs and, finance expense related to increased levels of debt used to sustain the increased capital related to new product launches; and

- a year-over-year decrease in net foreign exchange gain to a net foreign exchange loss during the quarter (included in Other Finance Income and Expense in the Interim Condensed Consolidated Statement of Operations).

These factors were partially offset by the following:

- higher margins from an overall increase in year-over-year production revenues including the launch of new programs subsequent to or during the first quarter 2013, in particular as it relates to the Martinrea Honsel operations;
- productivity and efficiency improvements at certain operating facilities, in particular the Martinrea Honsel operations in Germany;
- improved pricing on certain long-term customer contracts in Martinrea Honsel; and
- a lower effective tax rate due generally to mix of earnings and the utilization of tax losses in Martinrea Honsel not previously benefitted.

The contribution of Martinrea Honsel to net earnings for the first quarter of 2014, after factoring in the interest costs incurred by Martinrea International on the debt issued to finance the acquisition and operations of Martinrea Honsel, increased to \$0.12 per share from \$0.04 per share in the first quarter of 2013. The increase was generally due to the addition of new incremental aluminum business with Jaguar LandRover, generally higher production volumes in Europe, improved pricing on certain long term customer contracts and ongoing productivity, efficiency improvements at certain facilities, in particular in Germany, and a lower effective tax rate resulting from the utilization of tax losses not previously benefitted.

#### **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

##### ***Three months ended March 31, 2014 to three months ended March 31, 2013 comparison***

	Three months ended March 31, 2014	Three months ended March 31, 2013	\$ Change	% Change
Additions to Property, Plant and Equipment	\$ 37,051	\$ 56,705	(19,654)	(34.7%)

Additions to property, plant and equipment decreased by \$19.7 million to \$37.1 million in the first quarter of 2014 from \$56.7 million in the first quarter of 2013. Additions as a percentage of revenue decreased to 4.3% for the first quarter of 2014 compared to 7.4% for the first quarter of 2013. Despite the decrease, while capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in the first quarter of 2014 continues to be for manufacturing equipment for programs launching over the next 24 months.

#### **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. As a result of the increased geographic diversification resulting from the acquisition of Martinrea Honsel and the differences between the regions in which the Company now operates, the Company's operations are segmented on a geographic basis between North America, Europe and Rest of World. The Company measures segment operating performance based on operating income.

##### ***Three months ended March 31, 2014 to three months ended March 31, 2013 comparison***

	REVENUE		OPERATING INCOME	
	Three months ended March 31, 2014	Three months ended March 31, 2013	Three months ended March 31, 2014	Three months ended March 31, 2013
North America	\$ 663,664	\$ 610,531	\$ 21,368	\$ 30,769
Europe	183,653	141,811	17,674	4,467
Rest of World	17,176	16,780	(1,483)	(563)
	\$ 864,493	\$ 769,122	\$ 37,559	\$ 34,673

## North America

Despite the year-over-year increase in revenue, operating income in North America decreased by \$9.4 million to \$21.4 million for the first quarter of 2014 from \$30.8 million for the first quarter of 2013. Operating income in North America was negatively impacted by:

- operating inefficiencies at certain operating facilities in particular, Hopkinsville, Kentucky (as previously discussed);
- program specific launch costs (related to certain upcoming new programs set to launch and ramp up over the next few months);
- year-over-year increases in SG&A expense, research and development costs and finance expense (as previously noted); and
- \$1.2 million in external legal and forensic accounting costs related to litigation as explained in Table A under “Adjustments to Net Earnings”.

## Europe

Operating income in Europe, which predominately includes the European operations of Martinrea Honsel, increased by \$13.2 million to \$17.7 million for the first quarter of 2014 from \$4.5 million for the first quarter of 2013. Operating income in Europe was positively impacted by a year-over-year increase in revenues including the ramp up of new incremental business with Jaguar LandRover, ongoing productivity and efficiency improvements at certain operating facilities, in particular in Germany, and improved pricing on certain long term customer contracts.

## Rest of World

The operating results for the Rest of World operating segment, which currently includes the Company's facility in Brazil and a facility in China in its early stages, decreased year-over-year. The decrease in operating results was primarily due to lower production volumes in Brazil partially offset by improved results in China where the Company launched the Ford CD4 program, which began to ramp up at the end of the second quarter of 2013 and is now absorbing overhead costs.

## SUMMARY OF QUARTERLY RESULTS

	2014		2013			2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	864,493	858,624	767,861	826,274	769,122	705,600	697,198	762,553
Gross margin	87,479	73,475	83,663	91,183	75,715	60,969	58,018	75,202
Net income for the period	26,659	(44,074)	26,387	32,111	23,505	(18,883)	8,590	16,765
Net income attributable to equity holders of the Company	16,691	(51,425)	20,973	27,514	19,888	(7,052)	7,553	13,945
Basic Net Earnings (loss) per share	0.20	(0.61)	0.25	0.33	0.24	(0.09)	0.09	0.17
Diluted Net Earnings (loss) per share	0.20	(0.60)	0.25	0.33	0.24	(0.08)	0.09	0.17
Adjusted Basic Net Earnings per share	0.21	0.17	0.25	0.33	0.24	0.15	0.17	0.28
Adjusted Diluted Net Earnings per share	0.21	0.17	0.25	0.33	0.24	0.15	0.17	0.28

## LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid given its strong balance sheet, which can be attributed to the Company's low cost structure, reasonable level of debt, prospects for growth and significant new program launches. As at March 31, 2014, the Company had total equity attributable to equity holders of the Company of \$470.3 million. As at March 31, 2014, the Company's ratio of current assets to current liabilities was 1.4:1, consistent with recent quarters. The Company's current working capital level of \$283.0 million

and existing financing facilities are substantially 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 financing facilities or asset backed financing.

## Cash Flows

### Three months ended March 31, 2014 to three months ended March 31, 2013 comparison

	Three months ended March 31, 2014	Three months ended March 31, 2013	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 68,303	\$ 59,138	9,165	15.5%
Change in non-cash working capital items	(43,594)	(45,275)	1,681	(3.7%)
Interest paid	24,709	13,863	10,846	78.2%
Income taxes paid	(4,712)	(3,731)	(981)	26.3%
	(12,242)	(4,741)	(7,501)	158.2%
Cash provided by operating activities	7,755	5,391	2,364	43.9%
Cash provided by financing activities	24,227	52,759	(28,532)	(54.1%)
Cash used in investing activities	(45,641)	(64,607)	18,966	(29.4%)
Effect of foreign exchange rate changes	620	(1,351)	1,971	(145.9%)
Decrease in cash and cash equivalents	\$ (13,039)	\$ (7,808)	(5,231)	67.0%

Cash provided by operating activities during the first quarter of 2014 was \$7.8 million, compared to cash provided by operating activities of \$5.4 million in the corresponding period of 2013. The components for the first quarter of 2014 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$68.3 million;
- working capital items use of cash of \$43.6 million, comprised of a increase in trade and other receivables of \$95.5 million; inventories of \$16.4 million; prepaid expenses and deposits of \$1.1 million, partially offset by an increase in trade, other payables and provisions of \$69.4 million (working capital levels typically increase in the first quarter of any given year generally to seasonality as a result of the December holiday shutdown and lower levels heading into the first quarter);
- interest paid (excluding capitalized interest) of \$4.7 million; and
- income taxes paid of \$12.2 million.

Cash provided by financing activities during the first quarter of 2014 was \$24.2 million, compared to \$52.8 million in the corresponding period in 2013, primarily as a result of \$37.0 million in incremental operating line draws and new equipment based financing, partially offset by \$10.2 million of principal debt repayments made during the quarter and \$2.5 million in dividends paid.

Cash used in investing activities during the first quarter of 2014 was \$45.6 million, compared to \$64.6 million in the corresponding period in 2013, primarily as a result of:

- cash additions to PP&E of \$42.8 million;
- capitalized development costs relating to upcoming new program launches of \$3.4 million; partially offset by
- proceeds on disposal of PP&E of \$0.6 million.

Taking into account the opening cash balance of \$56.2 million at the beginning of the first quarter of 2014, and the activities described above, the cash and cash equivalents balance at March 31, 2014 was \$43.2 million.

## Financing

The primary terms of the Company's banking facility, with a syndicate of seven banks, are as follows:

- available revolving credit lines of \$300 million and US\$100 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$100 million;
- pricing terms at market rates; and
- a maturity date of August 2016.

As at March 31, 2014, the Company had drawn \$278.0 million on the Canadian revolving credit line and US\$59.0 million on the U.S. revolving credit line.

Net debt (i.e. long term debt less cash on hand) increased by approximately \$48.2 million from \$415.6 million at December 31, 2013 to \$463.8 million at March 31, 2014, due primarily to additional draw-downs on the Company's banking facility and new asset backed financing. The draw-downs and new loans were primarily used to finance the increase in working capital and certain capital expenditures during the three months ended March 31, 2014.

The Company was in compliance with its debt covenants as at March 31, 2014.

## 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 are 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; the second quarterly dividend was paid on October 15, 2013; the third quarterly dividend was paid on January 15, 2014 and the fourth quarterly dividend was paid on April 30, 2014. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In addition, 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 2013 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 eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At March 31, 2014, the amount of program financing was \$71.4 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.

## Acquisitions

On July 29, 2011, the Company closed an agreement to purchase a controlling interest in the assets of Honsel, a German-based leading supplier of aluminum components for the automotive and industrial sectors. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction. Martinrea owns 55% of the acquired assets, with Anchorage owning the remaining 45%.

The acquisition of the Honsel operations and the formation of the Martinrea Honsel Group provide the Company with a significant presence in the aluminum automotive parts market, and broaden the Company's metal forming capabilities and offerings. It also creates a more significant geographic presence outside North America, which the Company intends to grow over time. The Company's customer base was further expanded with the acquisition, with many of the larger European based OEMs being significant customers of Martinrea Honsel.

Martinrea Honsel develops and manufactures complex aluminum products using state-of-the-art production technologies including high pressure die-casting, permanent mold and sand casting as well as extruding and rolling. Honsel produces four major product lines:

engine products such as engine blocks, cylinder heads and oil pans; transmission products, such as housings and control parts; suspension products, such as engine cradles; and body parts, such as front boards and extrusion profiles.

Initially, the purchase transaction envisaged the purchase of all of Honsel's operations, which included plants in Germany located in Meschede, Nuremberg, Soest, and Nuttlar, as well as Madrid, Spain, Queretaro, Mexico, and Monte Mor, Brazil. The Nuremberg facility was subsequently sold to ZF Friedrichshafen AG ("ZF"), the primary customer of the facility, immediately after the closing of the purchase transaction. After factoring in the sale of the Nuremberg facility to ZF, the net cash consideration for the acquisition was €62,125 (\$85,272), of which Martinrea's portion was €34,169 (\$46,900).

In addition to the cash paid for the acquisition, Martinrea and Anchorage have invested an additional €47.8 million (\$66 million) as equity and €20 million (\$25.8 million) as debt into Martinrea Honsel. The funds have been used to finance working capital and the capital expenditures of the group.

As part of the transaction, the Company granted Anchorage a put option which, if exercised, will require the Company to purchase Anchorage's 45% interest in Martinrea Honsel Holdings B.V. The put option can be exercised beginning on April 1, 2015 and ends on October 1, 2017. The Company is required to purchase the shares held by Anchorage no later than 90 days after exercise of the put option. The put option provides a formula for determining the purchase price of the shares, which is designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provides an arbitration mechanism in the event that the two parties are unable to agree on the ultimate price.

The Company determined the fair value of the liability relating to the put option to be \$185,664 as at March 31, 2014 (December 31, 2013 - \$154,239). The fair value was determined by applying the contractual formula for determining the purchase price of the shares to projected earnings at the time the put option becomes exercisable and discounting it back to a present value using a rate commensurate with the risks inherent in the ownership interest. The put option liability is included in other financial liabilities on the Company's consolidated balance sheet with an offsetting adjustment to other equity of \$185,664. The fair value of the liability is sensitive to changes in projected earnings, which could result in a higher or lower fair value measurement. Changes in the carrying amount of the liability, including accretion and foreign exchange, are recognized within other equity.

The acquisition while bringing many benefits to Martinrea also provides some risks for the Company, as acquisition risk must be managed properly. The acquisition was also financed by the Company using available credit lines, which has increased the Company's debt levels. See also "Risks and Uncertainties".

### **Risks and Uncertainties**

The reader is referred to the detailed discussion on Industry Highlights and trends and Risks and Uncertainties as outlined in the Company's Annual Information Form dated March 31, 2014 and available through SEDAR at [www.sedar.com](http://www.sedar.com) which are incorporated herein by reference. 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.

### **Disclosure of Outstanding Share Data**

As at May 15, 2014, the Company had 84,489,704 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at May 15, 2014, options to acquire 5,586,915 common shares were outstanding.

### **Contractual Obligations and Off Balance Sheet Financing**

During the three months ended March 31, 2014, there has been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2013.

The Company has negotiated tool financing facilities that will 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 March 31, 2014, the amount of program financing was \$71.4 million. The maximum amount of undiscounted future payments the Company could be required to make under the guarantee is \$71.4 million. 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 6-18 months.

The Company periodically utilizes certain financial instruments, principally forward currency exchange contracts to manage the risk associated with fluctuations in currency exchange rates. It is the Company's policy to not utilize financial instruments for trading or speculative purposes. Forward currency exchange contracts are used to reduce the impact of fluctuating exchange rates on the Company's foreign denominated revenue and the Company's purchases of materials and equipment. Gains and losses on forward foreign exchange contracts are reflected in the consolidated financial statements in the same period as the hedged item. In the event that a hedged item is sold or cancelled prior to the termination of the related hedging item, any unrealized gain or loss on the hedging item is immediately recognized in income.

At March 31, 2014, the Company had committed to trade U.S. dollars in exchange for the following:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Euro	\$ 434	0.7252	1
Buy Canadian Dollars	\$ 52,000	1.0618	9
Buy Mexican Pesos	\$ 8,650	13.2940	2

The aggregate value of these forward contracts as at March 31, 2014 was a loss of \$2,535 and was recorded in trade and other payables (December 31, 2013 - loss of \$370 recorded in trade and other payables).

#### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

#### **Critical Accounting Policies and Estimates**

Included in the Company's 2013 annual consolidated financial statements, as well as in the Company's 2013 annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the three months ended March 31, 2014 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2013 annual MD&A, except for the following new accounting standards recently adopted.

##### *IAS 36, Impairment of assets*

Effective January 1, 2014, the Company adopted amendments made to IAS 36, Impairment of assets. These amendments require additional disclosures when the recoverable amount is determined based on fair value less cost of disposal including the following:

- Level of fair value hierarchy within which the fair value measurement is categorised
- Valuation techniques used to measure fair value less costs of disposal
- Key assumptions used in the fair value measurements categorised within 'Level 2' and 'Level 3' of the fair value hierarchy, and
- Discount rate when applicable.

The adoption of this amended standard did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

##### *IAS 32, Financial Instruments: Presentation*

Effective January 1, 2014, the Company adopted amendments made to IAS 32, Financial Instruments: Presentation which provide clarification on when an entity has a legally enforceable right to set-off financial assets and financial liabilities.

The adoption of this amended standard did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

#### *IFRIC 21, Levies*

Effective January 1, 2014, the Company adopted IFRIC 21, Levies which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies (i) the liability is recognized progressively if the obligating event occurs over a period of time, and (ii) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The adoption of this standard did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

#### **Outlook**

The automotive industry is traditionally an extremely challenging business, characterized at the OEM level by intense competition for market share, rebates to consumers and drives for quality and profits and characterized at the supplier level by price reductions, increasing quality standards, higher input prices and a declining number of qualified suppliers in the normal course or as a result of insolvencies and consolidation. The challenges of the industry were exacerbated by the 2008-2009 economic recession and the financial distress in the industry involving both OEMs and suppliers particularly evidenced by the bankruptcy filings of Chrysler and General Motors in the United States in 2009. The Company believes that the long term outlook of the automotive industry overall remains challenging but much improved from 2008 - 2010. In 2010, the North American automotive industry experienced a recovery in volume and revenues, as sales and production volumes increased from 2009 levels, although not to pre-recession levels. Production in 2011, 2012 and 2013 improved substantially, and production is continuing to improve in 2014. This has resulted in increasing revenues for most automotive OEMs and for suppliers who survived the automotive crisis of 2008 and 2009, including Martinrea.

There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium and longer term, and who have survived automotive and economic crises. It is expected that growth in business for individual suppliers will occur as OEMs reduce the number of Tier 1 suppliers, continue to outsource product, and provide opportunities for new work and takeover business. The Company believes that an industry slow-down or consolidation can be viewed as a strategic opportunity to win additional business from competitors producing fluid management systems or metal formed products. The Company also believes that its capabilities provide it with the ability to capitalize on a broad range of opportunities. In 2003, the Company streamlined operations, managed the integration of acquisitions to create efficiencies, strengthened product offerings, took advantage of technological capabilities and created more profitability. The Company built on this in 2004 and in 2005, building a base for the future. In 2006, the Company again pursued this strategy, and added a major complementary acquisition to broaden its base. In 2007 and 2008, the Company focused on integrating its acquisitions and continued with its traditional strategic focus. The Company continued to pursue its strategies in 2009 despite the automotive and economic crisis, and acquired assets, customers and new work. The Company's perseverance and focus continued throughout 2010, as the Company continued to build for the future. The Company continued to pursue its strategies in 2011, 2012 and 2013, including the acquisition of the assets of Honsel to broaden its product offerings and customer base, and will continue to do so in 2014 and in the future with a view to increasing revenue and profits over the longer term.

#### **Forward-Looking Information**

##### **Special Note Regarding Forward-Looking Statements**

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to revenue and gross margin percentage (and earnings per share), expansion of gross margin; statements as to the growth of the Company and pursuit of its strategies, the launching of new metal forming and fluid systems programs including expectations as to the financial impact of launches (and statements as to the progress and planning of operational improvements, operational efficiencies and improvement in production), pricing pressures placed by OEMs on suppliers, continued consolidation of automotive suppliers, the increased reliance on outsourcing by foreign-owned OEMs, anticipated growth in the automotive industry, future investments in leading edge technology, equipment and processes, the opportunity

to increase sales, broad geographic penetration, the Company's expectations regarding the future amount and type of restructuring expenses to be expensed (including Martinrea Honsel), the reduction of costs (including due to operational improvements), the Company's expectation regarding the financing of future capital expenditures, the Company's views of the likelihood of tooling and component part supplier default, the Company's view on the financial viability of its customers, the impact of environmental regulation on the demand for automobiles, the Company's views on the long term outlook of the automotive industry and availability of credit for automotive purchases, and corresponding increased sales and production, the Company's expectations as to new plant openings, statements as to the benefits of the Honsel acquisition, and the Company's ability to capitalize on opportunities in the automotive industry, the successful integration of acquisitions, the payment of future dividends, the recovery of litigation-related costs from the Company's insurer, 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, 2013 and other public filings which can be found at [www.sedar.com](http://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;
- outsourcing and in-sourcing 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;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- 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 growing 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; and
- the cost of post-employment benefits.

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.