MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016

Martinrea International Inc.

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Martinrea International Inc.
Interim Condensed Consolidated Balance Sheets
(in thousands of Canadian dollars) (unaudited)

	Note		March 31, 2016		December 31, 2015
ASSETS					
Cash and cash equivalents		$	22,383	$	28,899
Trade and other receivables	2		609,342		586,024
Inventories	3		360,228		356,969
Prepaid expenses and deposits			12,682		13,651
Income taxes recoverable			8,688		10,401
TOTAL CURRENT ASSETS			1,013,323		995,944
Property, plant and equipment	4		1,156,820		1,202,162
Deferred income tax assets			176,630		182,232
Intangible assets	5		78,653		83,590
TOTAL NON-CURRENT ASSETS			1,412,103		1,467,984
TOTAL ASSETS		$	2,425,426	$	2,463,928
LIABILITIES					
Trade and other payables	6	$	701,698	$	743,096
Provisions	7		12,763		15,598
Income taxes payable			26,593		29,873
Current portion of long term debt	8		37,186		43,399
TOTAL CURRENT LIABILITIES			778,240		831,966
Long term debt	8		708,226		673,613
Pension and other post-retirement benefits			71,250		67,552
Deferred income tax liabilities			107,306		114,571
TOTAL NON-CURRENT LIABILITIES			886,782		855,736
TOTAL LIABILITIES			1,665,022		1,687,702
EQUITY					
Capital Stock	10		709,497		709,396
Contributed surplus			42,702		42,648
Accumulated other comprehensive income			106,011		147,442
Accumulated deficit			(97,663)		(123,157)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			760,547		776,329
Non-controlling interest			(143)		(103)
TOTAL EQUITY			760,404		776,226
TOTAL LIABILITIES AND EQUITY		$	2,425,426	$	2,463,928

Subsequent event and contingencies (notes 8 and 15)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

“Robert Wildeboer” Director

“Scott Balfour” Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

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

	Note		Three months ended March 31, 2016		Three months ended March 31, 2015
SALES		$	1,039,450	$	917,531
Cost of sales (excluding depreciation of property, plant and equipment)			(896,214)		(794,997)
Depreciation of property, plant and equipment (production)			(31,418)		(26,895)
Total cost of sales			(927,632)		(821,892)
GROSS PROFIT			111,818		95,639
Research and development costs			(6,229)		(5,596)
Selling, general and administrative			(51,454)		(44,677)
Depreciation of property, plant and equipment (non-production)			(2,204)		(1,687)
Amortization of customer contracts and relationships			(535)		(539)
Gain/(loss) on disposal of property, plant and equipment			(51)		570
OPERATING INCOME			51,345		43,710
Finance expense			(6,194)		(6,555)
Other finance income (expense)	12		(2,121)		2,602
INCOME BEFORE INCOME TAXES			43,030		39,757
Income tax expense	9		(10,499)		(9,249)
NET INCOME FOR THE PERIOD		$	32,531	$	30,508
Non-controlling interest			40		(89)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$	32,571	$	30,419
Basic earnings per share	11	$	0.38	$	0.36
Diluted earnings per share	11	$	0.38	$	0.36

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

		Three months ended March 31, 2016		Three months ended March 31, 2015
NET INCOME FOR THE PERIOD	$	32,531	$	30,508
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations		(41,431)		27,064
Items that will not be reclassified to net income				
Actuarial losses from the remeasurement of defined benefit plans		(4,485)		(3,190)
Other comprehensive income (loss), net of tax		(45,916)		23,874
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$	(13,385)	$	54,382
Attributable to:				
Equity holders of the Company		(13,345)		54,293
Non-controlling interest		(40)		89
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$	(13,385)	$	54,382

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Equity attributable to equity holders of the Company						
	Capital stock	Contributed surplus	Cumulative translation account	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at December 31, 2014	$ 694,198	$ 45,347	$ 55,927	$ (219,480)	$ 575,992	$ (246)	$ 575,746
Net income for the period	-	-	-	30,419	30,419	89	30,508
Compensation expense related to stock options	-	199	-	-	199	-	199
Dividends ($0.03 per share)	-	-	-	(2,573)	(2,573)	-	(2,573)
Exercise of employee stock options	8,475	(2,248)	-	-	6,227	-	6,227
Other comprehensive income, net of tax							
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	(3,190)	(3,190)	-	(3,190)
Foreign currency translation differences	-	-	27,064	-	27,064	-	27,064
Balance at March 31, 2015	702,673	43,298	82,991	(194,824)	634,138	(157)	633,981
Net income for the period	-	-	-	76,611	76,611	54	76,665
Compensation expense related to stock options	-	1,185	-	-	1,185	-	1,185
Dividends ($0.09 per share)	-	-	-	(7,763)	(7,763)	-	(7,763)
Exercise of employee stock options	6,723	(1,835)	-	-	4,888	-	4,888
Other comprehensive loss, net of tax							
Actuarial gains from the remeasurement of defined benefit plans	-	-	-	2,819	2,819	-	2,819
Foreign currency translation differences	-	-	64,451	-	64,451	-	64,451
Balance at December 31, 2015	709,396	42,648	147,442	(123,157)	776,329	(103)	776,226
Net income for the period	-	-	-	32,571	32,571	(40)	32,531
Compensation expense related to stock options	-	83	-	-	83	-	83
Dividends ($0.03 per share)	-	-	-	(2,592)	(2,592)	-	(2,592)
Exercise of employee stock options	101	(29)	-	-	72	-	72
Other comprehensive income, net of tax							
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	(4,485)	(4,485)	-	(4,485)
Foreign currency translation differences	-	-	(41,431)	-	(41,431)	-	(41,431)
Balance at March 31, 2016	$ 709,497	$ 42,702	$ 106,011	$ (97,663)	$ 760,547	$ (143)	$ 760,404

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

		Three months ended March 31, 2016		Three months ended March 31, 2015
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net Income for the period	$	32,531	$	30,508
Adjustments for:				
Depreciation of property, plant and equipment		33,622		28,582
Amortization of customer contracts and relationships		535		539
Amortization of development costs		3,469		2,662
Unrealized (gains) losses on foreign exchange forward contracts		(703)		1,000
Finance costs		6,194		6,555
Income tax expense		10,499		9,249
(Gain)/loss on disposal of property, plant and equipment		51		(570)
Stock based compensation		83		199
Pension and other post-retirement benefits expense		1,109		1,097
Contributions made to pension and other post-retirement benefits		(332)		(1,468)
		87,058		78,353
Changes in non-cash working capital items:				
Trade and other receivables		(51,114)		(75,420)
Inventories		(19,200)		425
Prepaid expenses and deposits		535		(2,945)
Trade, other payables and provisions		4,170		31,276
		21,449		31,689
Interest paid (excluding capitalized interest)		(4,888)		(5,188)
Income taxes paid		(13,046)		(22,428)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	3,515	$	4,073
FINANCING ACTIVITIES:				
Increase in long term debt		69,724		19,029
Repayment of long term debt		(12,987)		(9,597)
Dividends paid		(2,591)		(2,548)
Exercise of employee stock options		72		6,227
NET CASH PROVIDED BY FINANCING ACTIVITIES	$	54,218	$	13,111
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment*		(59,255)		(46,501)
Capitalized development costs		(3,066)		(4,022)
Proceeds on disposal of property, plant and equipment		189		1,845
NET CASH USED IN INVESTING ACTIVITIES	$	(62,132)	$	(48,678)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,117)		(233)
DECREASE IN CASH AND CASH EQUIVALENTS		(6,516)		(31,727)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		28,899		52,401
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	22,383	$	20,674

*As at March 31, 2016, $32,591 (December 31, 2015 - $ 49,013) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

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

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 and 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 interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2015, except as outlined in note 1(d).

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2015.

(a) Functional and presentation currency

These interim condensed 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.

(d) Recently adopted accounting standards

The Company has adopted the new and amended IFRS pronouncements listed below as at January 1, 2016, in accordance with the transitional provisions outlined in the respective standards.

IFRS 11, Joint Arrangements

Effective January 1, 2016, the Company adopted the amendment made to IFRS 11, Joint Arrangements. The amendment to this standard requires business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business.

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.

2. TRADE AND OTHER RECEIVABLES

		March 31, 2016		**December 31, 2015**
Trade receivables	$	592,619	$	567,704
VAT and other receivables		16,020		18,320
Foreign exchange forward contracts (note 14(d))		703		-
	$	609,342	$	586,024

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 14.

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

3. INVENTORIES

	March 31, 2016	December 31, 2015
Raw materials	$ 157,860	$ 168,246
Work in progress	46,938	44,346
Finished goods	45,135	45,898
Tooling work in progress and other inventory	110,295	98,479
	$ 360,228	$ 356,969

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2016			December 31, 2015		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 149,544	$ (37,434)	$ 112,110	$ 151,354	$ (38,031)	$ 113,323
Leasehold improvements	53,589	(30,479)	23,110	54,861	(30,257)	24,604
Manufacturing equipment	1,563,354	(760,034)	803,320	1,552,322	(771,572)	780,750
Tooling and fixtures	37,381	(32,177)	5,204	39,286	(33,543)	5,743
Other assets	37,048	(19,660)	17,388	37,262	(19,326)	17,936
Construction in progress and spare parts	195,688	-	195,688	259,806	-	259,806
	$ 2,036,604	$ (879,784)	$ 1,156,820	$ 2,094,891	$ (892,729)	$ 1,202,162

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 and spare parts	Total
Net as of December 31, 2014	$ 105,417	$ 20,558	$ 663,467	$ 6,313	$ 13,824	$ 175,102	$ 984,681
Additions	-	563	5,837	-	1,019	207,800	215,219
Sale of assets held for sale	(1,165)	-	(3,552)	(955)	(183)	-	(5,855)
Disposals	-	-	(1,604)	(157)	(29)	(657)	(2,447)
Depreciation	(3,782)	(3,894)	(111,482)	(2,120)	(3,594)	-	(124,872)
Transfers from construction in progress and spare parts	307	5,060	137,712	1,866	5,242	(150,187)	-
Foreign currency translation adjustment	12,546	2,317	90,372	796	1,657	27,748	135,436
Net as of December 31, 2015	$ 113,323	$ 24,604	$ 780,750	$ 5,743	$ 17,936	$ 259,806	$ 1,202,162
Additions	-	124	1,514	14	68	41,113	42,833
Disposals	-	-	(36)	-	(10)	(194)	(240)
Depreciation	(1,000)	(1,190)	(30,003)	(417)	(1,012)	-	(33,622)
Transfers from construction in progress and spare parts	4,851	429	89,395	148	1,136	(95,959)	-
Foreign currency translation adjustment	(5,064)	(857)	(38,300)	(284)	(730)	(9,078)	(54,313)
Net as of March 31, 2016	$ 112,110	$ 23,110	$ 803,320	$ 5,204	$ 17,388	$ 195,688	$ 1,156,820

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At March 31, 2016, the carrying value of property, plant and equipment under such arrangements was $30,041 (December 31, 2015 – $32,834). The corresponding amounts owing are reflected within long term debt (note 8).

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

5. INTANGIBLE ASSETS

	March 31, 2016			December 31, 2015		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 61,713	$ (51,834)	$ 9,879	$ 62,556	$ (51,783)	$ 10,773
Development costs	125,930	(57,156)	68,774	129,906	(57,089)	72,817
	$ 187,643	$ (108,990)	$ 78,653	$ 192,462	$ (108,872)	$ 83,590

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net balance as at December 31, 2014	$ 11,796	$ 60,010	$ 71,806
Additions	-	15,193	15,193
Amortization	(2,134)	(12,104)	(14,238)
Foreign currency translation adjustment	1,111	9,718	10,829
Net balance at December 31, 2015	$ 10,773	$ 72,817	$ 83,590
Additions	-	3,066	3,066
Amortization	(535)	(3,469)	(4,004)
Foreign currency translation adjustment	(359)	(3,640)	(3,999)
Net balance at March 31, 2016	$ 9,879	$ 68,774	$ 78,653

6. TRADE AND OTHER PAYABLES

	March 31, 2016	December 31, 2015
Trade accounts payable and accrued liabilities	$ 701,698	$ 742,962
Foreign exchange forward contracts (note 14(d))	-	134
	$ 701,698	$ 743,096

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 14.

7. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Total
Net as of December 31, 2014	$ 3,752	$ 1,752	$ 5,504
Net additions	15,337	1,412	16,749
Amounts used during the period	(5,633)	(1,339)	(6,972)
Foreign currency translation adjustment	570	(253)	317
Net as of December 31, 2015	$ 14,026	$ 1,572	$ 15,598
Net additions	-	89	89
Amounts used during the period	(2,692)	(135)	(2,827)
Foreign currency translation adjustment	(142)	45	(97)
Net as of March 31, 2016	$ 11,192	$ 1,571	$ 12,763

Based on estimated cash outflows, all provisions as at March 31, 2016 and December 31, 2015 are presented on the consolidated balance sheet as current.

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

(a) Restructuring

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's German facility in Meschede. The restructuring accrual as at December 31, 2015 and March 31, 2016 relates to restructuring activities undertaken in Martinrea Honsel for employee related severance. No such costs were incurred during the three months ended March 31, 2016.

(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.

8. 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 14.

		March 31, 2016		**December 31, 2015**
Banking facility	$	621,238	$	574,818
Equipment loans		124,174		142,194
		745,412		717,012
Current portion		(37,186)		(43,399)
	$	708,226	$	673,613

Terms and conditions of outstanding loans, as at March 31, 2016, in Canadian dollar equivalents, are as follows:

	Currency	**Nominal interest rate**	**Year of maturity**		**March 31, 2016 Carrying amount**		**December 31, 2015 Carrying amount**
Banking facility	USD	LIBOR+2.0%	2018	$	350,649	$	304,480
	CAD	BA+2.0%	2018		270,589		270,338
Equipment loans	USD	4.25%	2018		37,098		42,926
	EUR	2.54%	2025		15,276		15,537
	EUR	3.06%	2024		15,995		16,267
	EUR	4.93%	2023		15,117		15,509
	USD	4.25%	2017		10,535		14,100
	USD	7.36%	2017		10,205		12,319
	EUR	3.37%	2017		6,148		7,988
	EUR	3.35%	2019		4,974		5,419
	EUR	4.34%	2025		3,171		3,225
	USD	3.99%	2017		1,727		2,642
	USD	3.89%	2016		1,497		3,136
	EUR	1.36%	2021		887		902
	USD	3.65%	2016		542		1,032
	USD	4.69%	2017		438		619
	EUR	0.26%	2025		346		352
	BRL	5.00%	2020		218		221
				$	745,412	$	717,012

As at March 31, 2016, the Company has drawn US$270,000 (December 31, 2015 - US$220,000) on the U.S. revolving credit line and drawn $273,000 (December 31, 2015 - $273,000) on the Canadian revolving credit line. At March 31, 2016, the weighted average effective rate of the banking facility credit lines was 2.7% (December 31, 2015 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at March 31, 2016.

Deferred financing fees of $2,715 (December 31, 2015 - $2,994) have been netted against the carrying value of the long term debt.

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

Future annual minimum principal repayments as at March 31, 2016 are as follows:

Within one year	$	37,186
One to two years		24,581
Two to three years		638,097
Three to four years		3,724
Thereafter		41,824
	$	745,412

Subsequent to March 31, 2016, on April 29, 2016, the Company's banking facility was amended to extend its maturity date and increase the total available revolving credit lines under the facility. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

- available revolving credit lines of $350 million and US $400 million;
- available asset based financing capacity of $205 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 US $150 million;
- pricing terms at market rates; and
- a maturity date of April 2020.

There were no changes to pricing terms or financial covenants under the facility adverse to the Company.

9. INCOME TAXES

The components of income tax expense are as follows:

		Three months ended March 31, 2016		Three months ended March 31, 2015
Current income tax expense	$	14,263	$	14,625
Deferred income tax recovery		(3,764)		(5,376)
Total income tax expense	$	10,499	$	9,249

10. CAPITAL STOCK

	Number		Amount
Common shares outstanding:			
Balance, December 31, 2014	84,925,083	$	694,198
Exercise of stock options	831,200		8,475
Balance, March 31, 2015	85,756,283	$	702,673
Exercise of stock options	618,384		6,723
Balance, December 31, 2015	86,374,667	$	709,396
Exercise of stock options	10,000		101
Balance, March 31, 2016	86,384,667	$	709,497

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

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 stock option plan and the policies of the Company, and the options have a maximum term of 10 years. Options are granted throughout the year and vest between zero and four years.

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

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

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	4,340,617	$	12.38	5,645,202	$	11.13
Exercised during the period	(10,000)		7.20	(831,200)		7.49
Cancelled during the period	(1,000,000)		16.15	-		-
Balance, end of period	3,330,617	$	11.26	4,814,002	$	11.76
Options exercisable, end of period	3,080,617	$	11.21	4,414,002	$	11.76

The following is a summary of the issued and outstanding common share purchase options as at March 31, 2016:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$6.00 - 8.99	1,139,868	2008 - 2012	2018 - 2022
$9.00 - 9.99	100,000	2008	2018
$10.00 - 15.99	1,300,749	2006 - 2015	2016 - 2025
$16.00 - 17.75	790,000	2007	2017
Total share purchase options	3,330,617		

For the three months ended March 31, 2016, the Company expensed $83 (three months ended March 31, 2015 - $199) to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

11. EARNINGS PER SHARE

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

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,384,334	$	0.38	85,080,044	$	0.36
Effect of dilutive securities:						
Stock options	243,560		-	605,481		-
Diluted	86,627,894	$	0.38	85,685,525	$	0.36

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 three months ended March 31, 2016, 2,090,749 options (three months ended March 31, 2015 - 2,417,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

12. OTHER FINANCE INCOME (EXPENSE)

		Three months ended March 31, 2016		Three months ended March 31, 2015
Net foreign exchange gain (loss)	$	(2,123)	$	2,592
Other income, net		2		10
Other finance income (expense)	$	(2,121)	$	2,602

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

13. 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 World.

The accounting policies of the segments are the same as those described in the Company's annual audited consolidated financial statements for the year ended December 31, 2015. The Company uses segment 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 segments:

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Sales	**Operating Income**	**Sales**	**Operating Income**
North America				
Canada	$ 216,499		$ 199,843	
USA	420,009		335,849	
Mexico	203,481		177,427	
	$ 839,989	$ 43,604	$ 713,119	$ 37,527
Europe				
Germany	109,128		142,805	
Spain	40,686		33,218	
Slovakia	14,855		11,378	
	164,669	8,875	187,401	8,368
Rest of World	34,792	(1,134)	17,011	(2,185)
	$ 1,039,450	$ 51,345	$ 917,531	$ 43,710

Inter-segment sales are not significant for any period presented.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, 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.

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

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

	March 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 22,383	$ 22,383	$ -	$ -
Foreign exchange forward contracts (note 2)	$ 703	$ -	$ 703	$ -
	December 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 28,899	$ 28,899	$ -	$ -
Foreign exchange forward contracts (note 6)	$ (134)	$ -	$ (134)	$ -

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:

March 31, 2016	**Fair value through profit or loss**	**Loans and receivables**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:					
Trade and other receivables	$ -	$ 608,639	$ -	$ 608,639	$ 608,639
Foreign exchange forward contracts	703	-	-	703	703
	703	608,639	-	609,342	609,342
FINANCIAL LIABILITIES:					
Trade and other payables	-	-	701,698	701,698	701,698
Long term debt	-	-	745,412	745,412	745,412
Foreign exchange forward contracts	-	-	-	-	-
	-	-	1,447,110	1,447,110	1,447,110
Net financial assets (liabilities)	$ 703	$ 608,639	$ (1,447,110)	$ (837,768)	$ (837,768)

December 31, 2015	**Fair value through profit or loss**	**Loans and receivables**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:					
Trade and other receivables	$ -	$ 586,024	$ -	$ 586,024	$ 586,024
	-	586,024	-	586,024	586,024
FINANCIAL LIABILITIES:					
Trade and other payables	-	-	(742,962)	(742,962)	(742,962)
Long term debt	-	-	(717,012)	(717,012)	(717,012)
Foreign exchange forward contracts	(134)	-	-	(134)	(134)
	(134)	-	(1,459,974)	(1,460,108)	(1,460,108)
Net financial assets (liabilities)	$ (134)	$ 586,024	$ (1,459,974)	$ (874,084)	$ (874,084)

The fair value of trade and other receivables and trade and other payables approximates 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 and currency risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

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

(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 short-term deposits 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. Approximately 88% (December 31, 2015 – 85%) of the Company's production sales are derived from seven customers. A substantial portion of the Company's accounts 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 March 31, 2016 are part of the normal payment pattern within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

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

		March 31, 2016		December 31, 2015
0-60 days	$	543,577	$	515,741
61-90 days		26,824		22,729
Greater than 90 days		22,218		29,234
	$	592,619	$	567,704

(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 March 31, 2016, the Company had cash of $22,383 and banking facilities available as discussed in note 8. All 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 8.

(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 1.75%.

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

		Carrying amount		
		March 31, 2016		December 31, 2015
Variable rate instruments	$	621,238	$	574,818
Fixed rate instruments		124,174		142,194
	$	745,412	$	717,012

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

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $1,501 (three months ended March 31, 2015 - $1,431) on the Company's interim consolidated financial results for the three months ended March 31, 2016.

(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 March 31, 2016, the Company had committed to the following foreign exchange contracts:

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Euro	$	8,906	0.8982	1
Buy Mexican Peso		8,301	18.0709	3

The aggregate value of these forward contracts as at March 31, 2016 was a pre-tax gain of $703 and was recorded in trade and other receivables (December 31, 2015 - loss of $134 and was recorded in trade and other payables).

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

March 31, 2016		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	319,275	€	66,850	$	38,549	R$	13,266	¥	118,387
Trade and other payables		(330,796)		(88,806)		(134,422)		(16,884)		(87,792)
Long term debt		(318,007)		(41,900)		-		(597)		-
	$	(329,528)	€	(63,856)	$	(95,873)	R$	(4,215)	¥	30,595

December 31, 2015		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	298,727	€	60,643	$	29,467	R$	10,964	¥	133,003
Trade and other payables		(341,419)		(83,303)		(168,509)		(17,890)		(90,216)
Long term debt		(275,714)		(43,381)		-		(633)		-
	$	(318,406)	€	(66,041)	$	(139,042)	R$	(7,559)	¥	42,787

The following summary illustrates the fluctuations in the exchange rates applied during the three months ended March 31, 2016 and 2015:

	Average rate		Closing rate	
	Three months ended March 31, 2016	Three months ended March 31, 2015	March 31, 2016	December 31, 2015
USD	1.3897	1.2053	1.2987	1.3840
EURO	1.5207	1.4157	1.4777	1.5029
PESO	0.0780	0.0819	0.0752	0.0805
BRL	0.3507	0.4468	0.3654	0.3494
CNY	0.2130	0.1937	0.2011	0.2131

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 March 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 three months ended March 31, 2016 by the amounts shown below, assuming all other variables remain constant:

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
USD	$ (2,478)	$ (1,775)
EURO	(768)	(697)
BRL	189	104
CNY	51	130
	$ (3,006)	$ (2,238)

A weakening of the Canadian dollar against the above currencies at March 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) 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 loss and accumulated deficit, 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 transactions 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.

15. CONTINGENCIES

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 this report 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, is approximately $67,007 (BRL $183,379) including interest and penalties to March 31, 2016 (December 31, 2015 - $62,157 or BRL $177,898). 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 $45,455 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.

16. 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 March 31, 2016, the amount of program financing was $80,236 (December 31, 2015 - $85,514) 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 2016 year-to-date or 2015. 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.