# MARTINREA INTERNATIONAL INC.

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## THIRD QUARTER REPORT

## SEPTEMBER 30, 2016

# THIRD QUARTER REPORT

September 30, 2016

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## MESSAGE TO SHAREHOLDERS

The Company experienced a good third quarter, as reflected in the attached materials. Our operations continue to improve. Our financial position remains very strong and our future is bright.

We thank you for your ongoing support as we work hard to build our company and your company.

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

# MARTINREA INTERNATIONAL INC.

## Releases Third Quarter Results and Announces Dividend

November 3, 2016 – For Immediate Release

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a leader in the development and production of quality metal parts, assemblies and modules and fluid management systems and complex aluminum products focused primarily on the automotive sector, announced today the release of its financial results for the third quarter ended September 30, 2016 and a quarterly dividend.

All amounts in this press release 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 Management Discussion and Analysis of Operating Results and Financial Position for the third quarter ended September 30, 2016 ("MD&A"), the Company's unaudited interim consolidated financial statements for the third quarter ended September 30, 2016 (the "unaudited interim consolidated financial statements") and the Company's Annual Information Form for the financial year ended December 31, 2015, can be found at www.sedar.com.

**HIGHLIGHTS FOR THE QUARTER**

- Production sales of $877 million
- Record third quarter net income of $29.1 million, or $0.34 per share
- Third quarter adjusted operating income and EBITDA margins increase year over year
- Operating margin improvement plan on track
- Record third quarter adjusted EBITDA of $80.6 million, trailing twelve months adjusted EBITDA increases to $348 million
- Net debt to trailing twelve months adjusted EBITDA ratio decreases to 1.96X
- Supplier quality awards achieved for metallic, aluminum plants
- Dividend of $0.03 per share announced

**OVERVIEW**

Pat D'Eramo, Martinrea's President and Chief Executive Officer, stated: "I am really pleased with our team's performance in the quarter, as we continue to deliver on key metrics. This is our eighth quarter in a row with record year-over-year adjusted earnings. Our margin improvement plan is on track along with our leverage ratio improvement. Our Martinrea 2.0 strategy continues to gain momentum in the organization at a strong forward pace. I am particularly pleased with our operational performance, which continues to get better, recognized by customer quality awards for best in class performance at our Queretaro and Alfield facilities, which received top supplier awards this week. I am also pleased to announce $30 million of new business wins in the quarter including $15 million of fluids management business and $15 million in steel metal forming business for General Motors starting in large part in 2019."

Fred Di Tosto, Martinrea's Chief Financial Officer, stated: "Sales in our third quarter, excluding tooling sales, were $877 million, slightly below our previously announced sales guidance range, given lower than anticipated sales volume on certain programs, including the Ford Escape as the customer slows production to manage vehicle inventory levels which is expected to continue in the fourth quarter, and the Chrysler 200 platform, as production numbers continue to drop as it approaches its official end by the end of the year. Our net earnings per share, on a basic and diluted basis, was $0.34, in line with previous guidance, and a record third quarter for us. Our operating income margin increased year-over-year in the third quarter, seasonally our weakest, to 4.7%, a healthy improvement year-over-year, as we move towards our interim target of at least 6% by the end of 2017. Our net debt to trailing twelve months adjusted EBITDA ratio at quarter end was 1.96x, a nice improvement from last year-end and an improvement from the end of the previous quarter, as we continue to progress to our target ratio of 1.50x by the end of 2017. Once again, we had another solid quarter from a financial perspective."

Rob Wildeboer, Martinrea's Executive Chairman, stated: "The last quarter was another good one for our company, and overall for the industry, which remains healthy and generating fairly strong sales and production volumes overall, although we are seeing some inventory adjustments from some of our customers. We expect that our fourth quarter sales, excluding tooling sales, will range from $860 to $900 million, and we expect adjusted net earnings per share in the range of $0.33 to $0.37 on a basic and diluted basis. Fourth quarter sales are expected to be impacted by the recent customer announcement of plant

shutdowns to reduce inventory on the Ford Escape and Fusion platforms, two of our largest, and some lower volumes on some Chrysler business, which will impact net earnings per share for the quarter by approximately 3 to 4 cents. The year 2016 will, we believe, be the best in our earnings history and a solid base for an anticipated record 2017. We anticipate consistent and broad improvement on a broad range of financial metrics next year, including margin, earnings and earnings per share, as well as continued strengthening of the balance sheet. Metrics will continue to improve in the coming years. Even more importantly, we are realizing our Vision, Mission and Guiding Principles on a continuous basis, and as a result we are stronger as a company than we have ever been."

## RESULTS OF OPERATIONS

## OVERALL RESULTS

The following tables set out certain highlights of the Company's performance for the three and nine months ended September 30, 2016 and 2015. Refer to the Company's interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 for a detailed account of the Company's performance for the periods presented in the tables below.

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Sales | $ | 914,725 | $ | 929,880 | (15,155) | (1.6%) |
| Gross Margin | | 99,698 | | 96,385 | 3,313 | 3.4% |
| Operating Income | | 43,394 | | 24,837 | 18,557 | 74.7% |
| Net Income for the period | | 28,827 | | 15,232 | 13,595 | 89.3% |
| Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 15,469 | 13,629 | 88.1% |
| Net Earnings per Share – Basic and Diluted | $ | 0.34 | $ | 0.18 | 0.16 | 88.9% |
| **Non-IFRS Measures*** | | | | | | |
| Adjusted Operating Income | $ | 43,394 | $ | 40,228 | 3,166 | 7.9% |
| *% of Sales* | | *4.7%* | | *4.3%* | | |
| Adjusted EBITDA | | 80,614 | | 75,773 | 4,841 | 6.4% |
| *% of Sales* | | *8.8%* | | *8.1%* | | |
| Adjusted Net Income Attributable to Equity Holders of the Company | | 29,098 | | 25,899 | 3,199 | 12.4% |
| Adjusted Net Earnings per Share - Basic and Diluted | $ | 0.34 | $ | 0.30 | 0.04 | 13.3% |

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Sales | $ | 2,978,000 | $ | 2,831,457 | 146,543 | 5.2% |
| Gross Margin | | 327,738 | | 298,403 | 29,335 | 9.8% |
| Operating Income | | 113,468 | | 118,785 | (5,317) | (4.5%) |
| Net Income for the period | | 61,331 | | 79,347 | (18,016) | (22.7%) |
| Net Income Attributable to Equity Holders of the Company | $ | 61,627 | $ | 79,299 | (17,672) | (22.3%) |
| Net Earnings per Share – Basic | $ | 0.71 | $ | 0.93 | (0.22) | (23.7%) |
| Net Earnings per Share – Diluted | $ | 0.71 | $ | 0.92 | (0.21) | (22.8%) |
| **Non-IFRS Measures*** | | | | | | |
| Adjusted Operating Income | $ | 151,731 | $ | 134,176 | 17,555 | 13.1% |
| *% of Sales* | | *5.1%* | | *4.7%* | | |
| Adjusted EBITDA | | 264,285 | | 234,489 | 29,796 | 12.7% |
| *% of Sales* | | *8.9%* | | *8.3%* | | |
| Adjusted Net Income Attributable to Equity Holders of the Company | | 99,332 | | 89,729 | 9,603 | 10.7% |
| Adjusted Net Earnings per Share - Basic | $ | 1.15 | $ | 1.05 | 0.10 | 9.5% |
| Adjusted Net Earnings per Share - Diluted | $ | 1.15 | $ | 1.04 | 0.11 | 10.6% |

***Non-IFRS Measures**

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

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

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 15,469 |
| Unusual and Other Items (after-tax)* | | - | | 10,430 |
| Adjusted Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 25,899 |

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 61,627 | $ | 79,299 |
| Unusual and Other Items (after-tax)* | | 37,705 | | 10,430 |
| Adjusted Net Income Attributable to Equity Holders of the Company | $ | 99,332 | $ | 89,729 |

**Unusual and other items for the three months ended September 30, 2015 and nine months ended September 30, 2016 and 2015 are explained in the "Adjustments to Net Income" section of this Press Release*

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 15,469 |
| Non-controlling interest | | (271) | | (237) |
| Income tax expense | | 9,319 | | 4,087 |
| Other finance income | | (770) | | (807) |
| Finance expense | | 6,018 | | 6,325 |
| Unusual and Other Items (before-tax)* | | - | | 15,391 |
| Adjusted Operating Income | $ | 43,394 | $ | 40,228 |
| Depreciation of property, plant and equipment | | 33,500 | | 31,879 |
| Amortization of intangible assets | | 3,673 | | 3,674 |
| Loss/(gain) on disposal of property, plant and equipment | | 47 | | (8) |
| Adjusted EBITDA | $ | 80,614 | $ | 75,773 |

*Unusual and other items for the three months ended September 30, 2015 are explained in the "Adjustments to Net Income" section of this Press Release*

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 61,627 | $ | 79,299 |
| Non-controlling interest | | (296) | | 48 |
| Income tax expense | | 31,455 | | 24,068 |
| Other finance expense (income) | | 2,570 | | (4,059) |
| Finance expense | | 18,112 | | 19,429 |
| Unusual and Other Items (before-tax)* | | 38,263 | | 15,391 |
| Adjusted Operating Income | $ | 151,731 | $ | 134,176 |
| Depreciation of property, plant and equipment | | 100,723 | | 90,596 |
| Amortization of intangible assets | | 11,755 | | 10,470 |
| Loss/(gain) on disposal of property, plant and equipment | | 76 | | (753) |
| Adjusted EBITDA | $ | 264,285 | $ | 234,489 |

*Unusual and other items for the nine months ended September 30, 2016 and 2015 are explained in the "Adjustments to Net Income" section of this Press Release*

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

**SALES**

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| North America | $ | 734,924 | $ | 745,034 | (10,110) | (1.4%) |
| Europe | | 152,080 | | 163,982 | (11,902) | (7.3%) |
| Rest of the World | | 27,721 | | 20,864 | 6,857 | 32.9% |
| Total Sales | $ | 914,725 | $ | 929,880 | (15,155) | (1.6%) |

The Company's consolidated sales for the third quarter of 2016 decreased by $15.2 million or 1.6% to $914.7 million as compared to $929.9 million for the third quarter of 2015. The total decrease in sales was driven by decreases in the North America and Europe operating segments partially offset by an increase in sales in the Rest of the World.

Sales for the third quarter of 2016 in the Company's North America operating segment decreased by $10.1 million or 1.4% to $734.9 million from $745.0 million for the third quarter of 2015. The decrease was due to lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, Ford Escape/Focus and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the third quarter of 2015. These negative factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the third quarter of 2016 of approximately $8.6 million as compared to the third quarter of 2015; a $5.5 million increase in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer; and the launch of new programs during or subsequent to the third quarter of 2015, including the Chevrolet Malibu, Cadillac CT6, and Chrysler Pacifica.

Sales for the third quarter of 2016 in the Company's Europe operating segment decreased by $11.9 million or 7.3% to $152.1 million from $164.0 million for the third quarter of 2015. The decrease can be attributed to lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's new operating facility in Spain, which continues to ramp up and execute its backlog of new business, a $2.6 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the third quarter of 2015, and a $2.1 million increase in tooling sales.

Sales for the third quarter of 2016 in the Company's Rest of the World operating segment increased by $6.9 million or 32.9% to $27.7 million from $20.9 million in the third quarter of 2015. The increase was mainly due to a year-over-year increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business; partially offset by a $0.8 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the third quarter of 2015, and a $0.5 million decrease in tooling sales and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels.

Overall tooling sales increased by $7.1 million to $38.2 million for the third quarter of 2016 from $31.1 million for the third quarter of 2015.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| North America | $ | 2,408,861 | $ | 2,256,856 | 152,005 | 6.7% |
| Europe | | 484,313 | | 517,345 | (33,032) | (6.4%) |
| Rest of the World | | 84,826 | | 57,256 | 27,570 | 48.2% |
| Total Sales | $ | 2,978,000 | $ | 2,831,457 | 146,543 | 5.2% |

The Company's consolidated sales for the nine months ended September 30, 2016 increased by $146.5 million or 5.2% to $2,978.0 million as compared to $2,831.5 million for the nine months ended September 30, 2015. The total increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the nine months ended September 30, 2016 in the Company's North America operating segment increased by $152.0 million or 6.7% to $2,408.9 million from $2,256.9 million for the nine months ended September 30, 2015. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2016 of approximately $135.0 million as compared to the comparative period of 2015; the launch of new programs during or subsequent to the nine months ended September 30, 2015, including the Chevrolet Malibu, Ford Edge, Cadillac CT6; and higher volumes on the Chrysler mini-van platform; and a year-over-year

increase in tooling sales of $47.4 million. These positive variances were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, Ford Escape/Focus and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the nine months ended September 30, 2015; some previously unplanned shutdowns from GM of four assembly plants for two weeks because of an earthquake in Japan disrupting the supply chain; and the planned shutdown of Chrysler's V6 Pentastar engine block for re-tooling. The planned shutdown of Chrysler's V6 Pentastar engine block program for re-tooling commenced during the fourth quarter of 2015 and was completed near the end of the first quarter of 2016. Volumes on the program ramped up during the second quarter but did not return to historical levels until the end of June 2016.

Sales for the nine months ended September 30, 2016 in the Company's Europe operating segment decreased by $33.0 million or 6.4% to $484.3 million from $517.3 million for the nine months ended September 30, 2015. The decrease can be attributed to a $6.3 million decrease in tooling sales and lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's operating facilities in Spain and Slovakia, which continue to ramp up and execute their backlogs of new business, and the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2016 of approximately $24.9 million as compared to the comparable period of 2015.

Sales for the nine months ended September 30, 2016 in the Company's Rest of the World operating segment increased by $27.6 million or 48.2% to $84.8 million from $57.3 million for the nine months ended September 30, 2015. The increase can be attributed to an increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business, and a $5.4 million increase in tooling sales; partially offset by the translation of foreign denominated production sales, which had a negative impact on overall sales for the nine months ended September 30, 2016 of $1.5 million as compared to the comparative period of 2015, and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels. The year-over-year increase in sales in the Company's operations in China was tempered by an unplanned OEM shutdown of one of its key light vehicle platforms during the second quarter. The program was down for seven weeks during the second quarter and came back online in July.

Overall tooling sales increased by $46.5 million to $145.7 million for the nine months ended September 30, 2016 from $99.2 million for the nine months ended September 30, 2015.

## GROSS MARGIN

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 99,698 | $ 96,385 | 3,313 | 3.4% |
| % of sales | 10.9% | 10.4% | | |

The gross margin percentage for the third quarter of 2016 of 10.9% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the third quarter of 2015 of 10.4%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 327,738 | $ 298,403 | 29,335 | 9.8% |
| % of sales | 11.0% | 10.5% | | |

The gross margin percentage for the nine months ended September 30, 2016 of 11.0% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the nine months ended September 30, 2015 of 10.5%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- an increase in tooling sales which typically earn low or no margins for the Company; and
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

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

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

**TABLE A**

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | For the three months ended September 30, 2016 (a) | For the three months ended September 30, 2015 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (A)** | **$29,098** | **$15,469** | **$13,629** |
| **Add back - Unusual and Other Items:** | | | |
| Restructuring costs (2) | - | 13,619 | (13,619) |
| Executive separation agreement (4) | - | 1,402 | (1,402) |
| Loss on sale of assets and liabilities held for sale (5) | - | 370 | (370) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | - | **$15,391** | **$(15,391)** |
| Tax impact of above items | - | (4,961) | 4,961 |
| **TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)** | - | **$10,430** | **$(10,430)** |
| **ADJUSTED NET INCOME (A + B)** | **$29,098** | **$25,899** | **$3,199** |
| Number of Shares Outstanding – Basic (‘000) | 86,385 | 86,203 | |
| Adjusted Basic Net Earnings Per Share | $0.34 | $0.30 | |
| Number of Shares Outstanding – Diluted (‘000) | 86,507 | 86,768 | |
| Adjusted Diluted Net Earnings Per Share | $0.34 | $0.30 | |

**TABLE B**

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | For the nine months ended September 30, 2016 (a) | For the nine months ended September 30, 2015 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (A)** | **$61,627** | **$79,299** | **$(17,672)** |
| **Add back - Unusual and Other Items:** | | | |
| Impairment of assets (1) | 34,579 | - | 34,579 |
| Restructuring costs (2) | 3,684 | 13,619 | (9,935) |
| Executive separation agreement (4) | - | 1,402 | (1,402) |
| Loss on sale of assets and liabilities held for sale (5) | - | 370 | (370) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **$38,263** | **$15,391** | **$22,872** |
| Tax impact of above items (3) | (558) | (4,961) | 4,403 |
| **TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)** | **$37,705** | **$10,430** | **$27,275** |
| **ADJUSTED NET INCOME (A + B)** | **$99,332** | **$89,729** | **$9,603** |
| Number of Shares Outstanding – Basic (‘000) | 86,385 | 85,700 | |
| Adjusted Basic Net Earnings Per Share | $1.15 | $1.05 | |
| Number of Shares Outstanding – Diluted (‘000) | 86,570 | 86,265 | |
| Adjusted Diluted Net Earnings Per Share | $1.15 | $1.04 | |

**(1) Impairment of assets**

During the second quarter of 2016, the Company recorded impairment charges on PP&E, intangible assets and inventories totaling $34,579 (US $26,599) related to an operating facility in Detroit, Michigan included in the North America operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This has led to a decision to close the facility. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

**(2) Restructuring costs**

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company’s German operating facilities in Meschede. In connection with these restructuring activities, $1,810 (€1,238) of employee related severance was recognized during the second quarter of 2016 and $13.6 million (€9.7 million) during the third quarter of 2015. No further costs related to this restructuring are expected to be incurred.

Other additions to the restructuring accrual during the second quarter of 2016 totaled $1,874 (US$1,441) and represent expected employee related payouts resulting from the closure of the operating facility in Detroit, Michigan as described above.

**(3) Tax impact of above items (For the nine months ended September 30, 2016)**

The tax impact of the adjustments recorded to income during the second quarter of 2016 (and reflected in the unusual and other items recognized during the nine months ended September 30, 2016) of $558 represents solely the

corresponding tax effect on the $1,810 in restructuring costs incurred in Meschede, Germany. The $34,579 in impairment charges and $1,874 in restructuring costs related to the closure of the operating facility in Detroit, Michigan, as described above, resulted in tax losses that were not benefitted and, as a result, not recognized as a deferred tax asset. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of taxable temporary differences; however, forming a conclusion on the realization of deferred tax assets requires judgment when there are recent tax losses.

**(4) Executive separation agreement**

On July 14, 2015, Danny Infusino stepped down as the Company's Executive Vice President of Business Development and Engineering and Vice President of Operations. The costs added back for Adjusted Net Income purposes represents Mr. Infusino's termination benefits (included in SG&A expense) as set out in his employment contract payable over an eighteen month period.

**(5) Loss on sale of assets and liabilities held for sale**

During the second quarter of 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specialized in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets were sold for proceeds of $20.6 million (€14.6 million) resulting in a pre-tax loss on sale of $0.4 million (€0.3 million).

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

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Net Income | $ 29,098 | $ 15,469 | 13,629 | 88.1% |
| Adjusted Net Income | $ 29,098 | $ 25,899 | 3,199 | 12.4% |
| Net Earnings per Share | | | | |
| Basic | $ 0.34 | $ 0.18 | | |
| Diluted | $ 0.34 | $ 0.18 | | |
| Adjusted Net Earnings per Share | | | | |
| Basic | $ 0.34 | $ 0.30 | | |
| Diluted | $ 0.34 | $ 0.30 | | |

Net Income, before adjustments, for the third quarter of 2016 increased by $13.6 million to $29.1 million from $15.5 million for the third quarter of 2015 largely as a result of the unusual and other items incurred during the third quarter of 2015 as explained in Table A under "Adjustments to Net Income". Excluding these unusual and other items, net income for the third quarter of 2016 increased to $29.1 million or $0.34 per share, on a basic and diluted basis, from $25.9 million or $0.30 per share, on a basic and diluted basis, for the third quarter of 2015.

Adjusted Net Income for the third quarter of 2016, as compared to the third quarter of 2015, was positively impacted by the following:

- productivity and efficiency improvements at certain operating facilities;
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business; and
- a slightly lower effective tax rate on adjusted income due generally to the mix of earnings (24.4% for the third quarter of 2016 compared to 26.1% for the third quarter of 2015).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Net Income | $ 61,627 | $ 79,299 | (17,672) | (22.3%) |
| Adjusted Net Income | $ 99,332 | $ 89,729 | 9,603 | 10.7% |
| Net Earnings per Share | | | | |
| Basic | $ 0.71 | $ 0.93 | | |
| Diluted | $ 0.71 | $ 0.92 | | |
| Adjusted Net Earnings per Share | | | | |
| Basic | $ 1.15 | $ 1.05 | | |
| Diluted | $ 1.15 | $ 1.04 | | |

Net Income, before adjustments, for the nine months ended September 30, 2016 decreased by $17.7 million to $61.6 million from $79.3 million for the nine months ended September 30, 2015 largely as a result of the impact of the unusual and other items incurred during the nine months ended September 30, 2016 and 2015 as explained in Table B under “Adjustments to Net Income”. Excluding these unusual and other items, net income for the nine months ended September 30, 2016 increased to $99.3 million or $1.15 per share, on a basic and diluted basis, from $89.7 million or $1.05 per share, on a basic basis, and $1.04 per share, on a diluted basis, for the nine months ended September 30, 2015.

Adjusted Net Income for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business; and
- a year-over-year decrease in finance expense on the Company’s bank debt.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs;
- a year-over-year increase in SG&A as previously discussed;
- a net foreign exchange loss of $2.7 million for the nine months ended September 30, 2016 compared to a net foreign exchange gain of $4.0 million for the comparative period of 2015; and
- a slight year-over-year increase in research and development expenses, due predominantly to increased amortization of development costs.

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Additions to PP&E | $ 43,739 | $ 44,801 | (1,062) | (2.4%) |

Additions to PP&E decreased by $1.1 million to $43.7 million in the third quarter of 2016 from $44.8 million in the third quarter of 2015 due generally to the timing of expenditures. Additions as a percentage of sales remained consistent year-over-year at 4.8%. 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 third quarter of 2016 continued to be for manufacturing equipment and multiple expansions/new operating facilities for programs that recently launched or will be launching over the next 24 months.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Additions to PP&E | $ 136,733 | $ 129,536 | 7,197 | 5.6% |

Additions to PP&E increased by $7.2 million year-over-year to $136.7 million for the nine months ended September 30, 2016 compared to $129.5 million for the nine months ended September 30, 2015 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales remained consistent year-over-year at 4.6%. The Company continues to make investments in the business in particular at new greenfield operating facilities as these new plants execute on their backlogs of new business.

## DIVIDEND

A cash dividend of $0.03 per share has been declared by the Board of Directors payable to shareholders of record on December 31, 2016 on or about January 16, 2017.

## ABOUT MARTINREA

Martinrea currently employs over 15,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea's vision for the future is to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. The Company's mission is to deliver: outstanding quality products and services to our customers; meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth; superior long term investment returns to our stakeholders; and positive contributions to our communities as good corporate citizens.

## CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Friday, November 4, 2016 at 8:00 a.m. (Toronto time) which can be accessed by dialing 416-340-2216 or toll free 866-223-7781. Please call 10 minutes prior to the start of the conference call.

If you have any teleconferencing questions, please call Andre La Rosa at (416) 749-0314.

There will also be a rebroadcast of the call available by dialing 905-694-9451 or toll free 800-408-3053 (conference id – 4466042#). The rebroadcast will be available until November 18, 2016.

**FORWARD-LOOKING INFORMATION**

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

This press release contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements in, expansion of, strength of, usefulness of and/or guidance or outlook as to future revenue, sales, gross margin, earnings, earnings per share, adjusted net earnings per share, adjusted net income and/or net debt:EBITDA ratios, the Company's balance sheet and/or other financial metrics for the 2016 and 2017 year and beyond, customer volumes (and impact on sales and earnings or other financial metrics), the growth and strengthening of and the competitiveness of the Company, the opening or closing of facilities and success of the execution of and pursuit of its strategies, the launching of new programs and the financial impact of launches, the progress, and expectations, of operational and productivity improvements and efficiencies and the lean manufacturing culture, the reduction of costs and expense, including expectations of future restructuring costs, the opportunity to increase sales and ability to capitalize on opportunities in the automotive industry, the strength of the automotive industry, customer working relationships, the payment of dividends and 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 and other public filings which can found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- Competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- 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 exposure;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as under-funding of pensions plans;
- the cost of post-employment benefits;
- impairment charges; and
- cybersecurity threats.

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.

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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Vaughan, Ontario L4K 5B2

Tel: (416) 749-0314
Fax: (289) 982-3001

**MANAGEMENT DISCUSSION AND ANALYSIS**

**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the three and nine months ended September 30, 2016**

The following management discussion and analysis ("MD&A") was prepared as of November 3, 2016 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 ("interim consolidated financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2015 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, 2015, can be found at www.sedar.com.

## OVERVIEW

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs over 15,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea's vision for the future is to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. The Company's mission is to deliver: outstanding quality products and services to our customers; meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth; superior long term investment returns to our stakeholders; and positive contributions to our communities as good corporate citizens.

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

## OVERALL RESULTS

The following tables set out certain highlights of the Company's performance for the three and nine months ended September 30, 2016 and 2015. Refer to the Company's interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 for a detailed account of the Company's performance for the periods presented in the tables below.

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Sales | $ 914,725 | $ 929,880 | (15,155) | (1.6%) |
| Gross Margin | 99,698 | 96,385 | 3,313 | 3.4% |
| Operating Income | 43,394 | 24,837 | 18,557 | 74.7% |
| Net Income for the period | 28,827 | 15,232 | 13,595 | 89.3% |
| Net Income Attributable to Equity Holders of the Company | $ 29,098 | $ 15,469 | 13,629 | 88.1% |
| Net Earnings per Share – Basic and Diluted | $ 0.34 | $ 0.18 | 0.16 | 88.9% |
| **Non-IFRS Measures*** | | | | |
| Adjusted Operating Income | $ 43,394 | $ 40,228 | 3,166 | 7.9% |
| *% of Sales* | *4.7%* | *4.3%* | | |
| Adjusted EBITDA | 80,614 | 75,773 | 4,841 | 6.4% |
| *% of Sales* | *8.8%* | *8.1%* | | |
| Adjusted Net Income Attributable to Equity Holders of the Company | 29,098 | 25,899 | 3,199 | 12.4% |
| Adjusted Net Earnings per Share - Basic and Diluted | $ 0.34 | $ 0.30 | 0.04 | 13.3% |

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Sales | $ | 2,978,000 | $ | 2,831,457 | 146,543 | 5.2% |
| Gross Margin | | 327,738 | | 298,403 | 29,335 | 9.8% |
| Operating Income | | 113,468 | | 118,785 | (5,317) | (4.5%) |
| Net Income for the period | | 61,331 | | 79,347 | (18,016) | (22.7%) |
| Net Income Attributable to Equity Holders of the Company | $ | 61,627 | $ | 79,299 | (17,672) | (22.3%) |
| Net Earnings per Share – Basic | $ | 0.71 | $ | 0.93 | (0.22) | (23.7%) |
| Net Earnings per Share – Diluted | $ | 0.71 | $ | 0.92 | (0.21) | (22.8%) |
| **Non-IFRS Measures*** | | | | | | |
| Adjusted Operating Income | $ | 151,731 | $ | 134,176 | 17,555 | 13.1% |
| *% of Sales* | | *5.1%* | | *4.7%* | | |
| Adjusted EBITDA | | 264,285 | | 234,489 | 29,796 | 12.7% |
| *% of Sales* | | *8.9%* | | *8.3%* | | |
| Adjusted Net Income Attributable to Equity Holders of the Company | | 99,332 | | 89,729 | 9,603 | 10.7% |
| Adjusted Net Earnings per Share - Basic | $ | 1.15 | $ | 1.05 | 0.10 | 9.5% |
| Adjusted Net Earnings per Share - Diluted | $ | 1.15 | $ | 1.04 | 0.11 | 10.6% |

***Non-IFRS Measures***

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

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

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 15,469 |
| Unusual and Other Items (after-tax)* | | - | | 10,430 |
| Adjusted Net Income Attributable to Equity Holders of the Company | $ | 29,098 | $ | 25,899 |

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ | 61,627 | $ | 79,299 |
| Unusual and Other Items (after-tax)* | | 37,705 | | 10,430 |
| Adjusted Net Income Attributable to Equity Holders of the Company | $ | 99,332 | $ | 89,729 |

**Unusual and other items for the three months ended September 30, 2015 and nine months ended September 30, 2016 and 2015 are explained in the "Adjustments to Net Income" section of this MD&A*

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 |
|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ 29,098 | $ 15,469 |
| Non-controlling interest | (271) | (237) |
| Income tax expense | 9,319 | 4,087 |
| Other finance income | (770) | (807) |
| Finance expense | 6,018 | 6,325 |
| Unusual and Other Items (before-tax)* | - | 15,391 |
| Adjusted Operating Income | $ 43,394 | $ 40,228 |
| Depreciation of property, plant and equipment | 33,500 | 31,879 |
| Amortization of intangible assets | 3,673 | 3,674 |
| Loss/(gain) on disposal of property, plant and equipment | 47 | (8) |
| Adjusted EBITDA | $ 80,614 | $ 75,773 |

**Unusual and other items for the three months ended September 30, 2015 are explained in the "Adjustments to Net Income" section of this MD&A*

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|
| Net Income Attributable to Equity Holders of the Company | $ 61,627 | $ 79,299 |
| Non-controlling interest | (296) | 48 |
| Income tax expense | 31,455 | 24,068 |
| Other finance expense (income) | 2,570 | (4,059) |
| Finance expense | 18,112 | 19,429 |
| Unusual and Other Items (before-tax)* | 38,263 | 15,391 |
| Adjusted Operating Income | $ 151,731 | $ 134,176 |
| Depreciation of property, plant and equipment | 100,723 | 90,596 |
| Amortization of intangible assets | 11,755 | 10,470 |
| Loss/(gain) on disposal of property, plant and equipment | 76 | (753) |
| Adjusted EBITDA | $ 264,285 | $ 234,489 |

**Unusual and other items for the nine months ended September 30, 2016 and 2015 are explained in the "Adjustments to Net Income" section of this MD&A*

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

## SALES

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| North America | $ 734,924 | $ 745,034 | (10,110) | (1.4%) |
| Europe | 152,080 | 163,982 | (11,902) | (7.3%) |
| Rest of the World | 27,721 | 20,864 | 6,857 | 32.9% |
| Total Sales | $ 914,725 | $ 929,880 | (15,155) | (1.6%) |

The Company's consolidated sales for the third quarter of 2016 decreased by $15.2 million or 1.6% to $914.7 million as compared to $929.9 million for the third quarter of 2015. The total decrease in sales was driven by decreases in the North America and Europe operating segments partially offset by an increase in sales in the Rest of the World.

Sales for the third quarter of 2016 in the Company's North America operating segment decreased by $10.1 million or 1.4% to $734.9 million from $745.0 million for the third quarter of 2015. The decrease was due to lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, Ford Escape/Focus and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the third quarter of 2015. These negative factors were

partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the third quarter of 2016 of approximately $8.6 million as compared to the third quarter of 2015; a $5.5 million increase in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer; and the launch of new programs during or subsequent to the third quarter of 2015, including the Chevrolet Malibu, Cadillac CT6, and Chrysler Pacifica.

Sales for the third quarter of 2016 in the Company's Europe operating segment decreased by $11.9 million or 7.3% to $152.1 million from $164.0 million for the third quarter of 2015. The decrease can be attributed to lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's new operating facility in Spain, which continues to ramp up and execute its backlog of new business, a $2.6 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the third quarter of 2015, and a $2.1 million increase in tooling sales.

Sales for the third quarter of 2016 in the Company's Rest of the World operating segment increased by $6.9 million or 32.9% to $27.7 million from $20.9 million in the third quarter of 2015. The increase was mainly due to a year-over-year increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business; partially offset by a $0.8 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the third quarter of 2015, and a $0.5 million decrease in tooling sales and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels.

Overall tooling sales increased by $7.1 million to $38.2 million for the third quarter of 2016 from $31.1 million for the third quarter of 2015.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| North America | $ | 2,408,861 | $ | 2,256,856 | 152,005 | 6.7% |
| Europe | | 484,313 | | 517,345 | (33,032) | (6.4%) |
| Rest of the World | | 84,826 | | 57,256 | 27,570 | 48.2% |
| Total Sales | $ | 2,978,000 | $ | 2,831,457 | 146,543 | 5.2% |

The Company's consolidated sales for the nine months ended September 30, 2016 increased by $146.5 million or 5.2% to $2,978.0 million as compared to $2,831.5 million for the nine months ended September 30, 2015. The total increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the nine months ended September 30, 2016 in the Company's North America operating segment increased by $152.0 million or 6.7% to $2,408.9 million from $2,256.9 million for the nine months ended September 30, 2015. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2016 of approximately $135.0 million as compared to the comparative period of 2015; the launch of new programs during or subsequent to the nine months ended September 30, 2015, including the Chevrolet Malibu, Ford Edge, Cadillac CT6; and higher volumes on the Chrysler mini-van platform; and a year-over-year increase in tooling sales of $47.4 million. These positive variances were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, Ford Escape/Focus and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the nine months ended September 30, 2015; some previously unplanned shutdowns from GM of four assembly plants for two weeks because of an earthquake in Japan disrupting the supply chain; and the planned shutdown of Chrysler's V6 Pentastar engine block for re-tooling. The planned shutdown of Chrysler's V6 Pentastar engine block program for re-tooling commenced during the fourth quarter of 2015 and was completed near the end of the first quarter of 2016. Volumes on the program ramped up during the second quarter but did not return to historical levels until the end of June 2016.

Sales for the nine months ended September 30, 2016 in the Company's Europe operating segment decreased by $33.0 million or 6.4% to $484.3 million from $517.3 million for the nine months ended September 30, 2015. The decrease can be attributed to a $6.3 million decrease in tooling sales and lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's operating facilities in Spain and Slovakia, which continue to ramp up and execute their backlogs of new business, and the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on

overall sales for the nine months ended September 30, 2016 of approximately $24.9 million as compared to the comparable period of 2015.

Sales for the nine months ended September 30, 2016 in the Company's Rest of the World operating segment increased by $27.6 million or 48.2% to $84.8 million from $57.3 million for the nine months ended September 30, 2015. The increase can be attributed to an increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business, and a $5.4 million increase in tooling sales; partially offset by the translation of foreign denominated production sales, which had a negative impact on overall sales for the nine months ended September 30, 2016 of $1.5 million as compared to the comparative period of 2015, and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels. The year-over-year increase in sales in the Company's operations in China was tempered by an unplanned OEM shutdown of one of its key light vehicle platforms during the second quarter. The program was down for seven weeks during the second quarter and came back online in July.

Overall tooling sales increased by $46.5 million to $145.7 million for the nine months ended September 30, 2016 from $99.2 million for the nine months ended September 30, 2015.

## GROSS MARGIN

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 99,698 | $ 96,385 | 3,313 | 3.4% |
| % of sales | 10.9% | 10.4% | | |

The gross margin percentage for the third quarter of 2016 of 10.9% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the third quarter of 2015 of 10.4%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 327,738 | $ 298,403 | 29,335 | 9.8% |
| % of sales | 11.0% | 10.5% | | |

The gross margin percentage for the nine months ended September 30, 2016 of 11.0% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the nine months ended September 30, 2015 of 10.5%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- an increase in tooling sales which typically earn low or no margins for the Company; and

- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

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

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Selling, general & administrative | $ | 48,023 | $ | 49,300 | (1,277) | (2.6%) |
| % of sales | | 5.2% | | 5.3% | | |

SG&A expense, before adjustments, for the third quarter of 2016 decreased by $1.3 million to $48.0 million as compared to $49.3 million for the third quarter of 2015. Excluding the unusual and other item recorded in SG&A expense incurred during the third quarter of 2015 as explained in Table A under "Adjustments to Net Income", SG&A expense for the third quarter of 2016 remained consistent year-over-year increasing only slightly to $48.0 million from $47.9 million for the comparative period.

Excluding the unusual and other item recorded in SG&A expense incurred during the third quarter of 2015 as explained in Table A under "Adjustments to Net Income", SG&A expense as a percentage of sales remained consistent year-over-year at 5.2%. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Selling, general & administrative | $ | 150,138 | $ | 142,583 | 7,555 | 5.3% |
| % of sales | | 5.0% | | 5.0% | | |

SG&A expense, before adjustments, for the nine months ended September 30, 2016 increased by $7.5 million to $150.1 million as compared to $142.6 million for the nine months ended September 30, 2015. Excluding the unusual and other item recorded in SG&A expense incurred during the nine months ended September 30, 2015 as explained in Table B under "Adjustments to Net Income", SG&A expense for the nine months ended September 30, 2016 increased by $8.9 million to $150.1 million from $141.2 million for the comparative period of 2015. The increase is predominantly due to pre-operating costs incurred at new and/or expanded facilities, including incremental employment levels to support the business.

Excluding the unusual and other item recorded in SG&A expense incurred during the nine months ended September 30, 2015 as explained in Table B under "Adjustments to Net Income", SG&A expense as a percentage of sales remained consistent year-over-year at 5.0%.

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

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Depreciation of PP&E (production) | $ | 31,335 | $ | 30,018 | 1,317 | 4.4% |
| Depreciation of PP&E (non-production) | | 2,165 | | 1,861 | 304 | 16.3% |
| Amortization of customer contracts and relationships | | 587 | | 495 | 92 | 18.6% |
| Amortization of development costs | | 3,086 | | 3,179 | (93) | (2.9%) |
| Total depreciation and amortization | $ | 37,173 | $ | 35,553 | 1,620 | 4.6% |

Total depreciation and amortization expense for the third quarter of 2016 increased by $1.6 million to $37.2 million as compared to $35.6 million for the third quarter of 2015. 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 new and replacement business. The year-over-year increase in total depreciation and amortization expense was partially offset by a lower depreciation recognized at an operating facility in Detroit, Michigan due to certain assets having been impaired during the second quarter of 2016.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the third quarter of 2015. The Company continues to make significant investments in the business in light of its backlog of business and growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-over to 3.4% for the third quarter of 2016 from 3.2% for the third quarter of 2015 due to lower year-over-year sales as previously discussed.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Depreciation of PP&E (production) | $ 94,254 | $ 85,193 | 9,061 | 10.6% |
| Depreciation of PP&E (non-production) | 6,469 | 5,403 | 1,066 | 19.7% |
| Amortization of customer contracts and relationships | 1,710 | 1,611 | 99 | 6.1% |
| Amortization of development costs | 10,045 | 8,859 | 1,186 | 13.4% |
| Total depreciation and amortization | $ 112,478 | $ 101,066 | 11,412 | 11.3% |

Total depreciation and amortization expense for the nine months ended September 30, 2016 increased by $11.4 million to $112.5 million as compared to $101.1 million for the nine months ended September 30, 2015. The increase was due to foreign currency translation and, similar to the year-over-year quarterly trend, an increase in depreciation expense on a larger PP&E base resulting from new and replacement business, and increased amortization of development costs as new and replacement programs, for which development costs were incurred, started production and reached peak volumes. The year-over-year increase in total depreciation and amortization expense was partially offset by a lower expense from an asset impairment relating to the closure of an operating facility in Detroit, Michigan recorded during the second quarter of 2016.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-year to 3.2% for the nine months ended September 30, 2016 compared to 3.0% for the nine months ended September 30, 2015 as recent investments in equipment are put to use.

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

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

**TABLE A**

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | For the three months ended September 30, 2016 (a) | For the three months ended September 30, 2015 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (A)** | **$29,098** | **$15,469** | **$13,629** |
| **Add back - Unusual and Other Items:** | | | |
| Restructuring costs (2) | - | 13,619 | (13,619) |
| Executive separation agreement (4) | - | 1,402 | (1,402) |
| Loss on sale of assets and liabilities held for sale (5) | - | 370 | (370) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | - | **$15,391** | **$(15,391)** |
| Tax impact of above items | - | (4,961) | 4,961 |
| **TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)** | - | **$10,430** | **$(10,430)** |
| **ADJUSTED NET INCOME (A + B)** | **$29,098** | **$25,899** | **$3,199** |
| Number of Shares Outstanding – Basic (‘000) | 86,385 | 86,203 | |
| Adjusted Basic Net Earnings Per Share | $0.34 | $0.30 | |
| Number of Shares Outstanding – Diluted (‘000) | 86,507 | 86,768 | |
| Adjusted Diluted Net Earnings Per Share | $0.34 | $0.30 | |

**TABLE B**

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | For the nine months ended September 30, 2016 (a) | For the nine months ended September 30, 2015 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (A)** | **$61,627** | **$79,299** | **$(17,672)** |
| **Add back - Unusual and Other Items:** | | | |
| Impairment of assets (1) | 34,579 | - | 34,579 |
| Restructuring costs (2) | 3,684 | 13,619 | (9,935) |
| Executive separation agreement (4) | - | 1,402 | (1,402) |
| Loss on sale of assets and liabilities held for sale (5) | - | 370 | (370) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **$38,263** | **$15,391** | **$22,872** |
| Tax impact of above items (3) | (558) | (4,961) | 4,403 |
| **TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)** | **$37,705** | **$10,430** | **$27,275** |
| **ADJUSTED NET INCOME (A + B)** | **$99,332** | **$89,729** | **$9,603** |
| Number of Shares Outstanding – Basic ('000) | 86,385 | 85,700 | |
| Adjusted Basic Net Earnings Per Share | $1.15 | $1.05 | |
| Number of Shares Outstanding – Diluted ('000) | 86,570 | 86,265 | |
| Adjusted Diluted Net Earnings Per Share | $1.15 | $1.04 | |

**(1) Impairment of assets**

During the second quarter of 2016, the Company recorded impairment charges on PP&E, intangible assets and inventories totaling $34,579 (US $26,599) related to an operating facility in Detroit, Michigan included in the North America operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This has led to a decision to close the facility. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

**(2) Restructuring costs**

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's German operating facilities in Meschede. In connection with these restructuring activities, $1,810 (€1,238) of employee related severance was recognized during the second quarter of 2016 and $13.6 million (€9.7 million) during the third quarter of 2015. No further costs related to this restructuring are expected to be incurred.

Other additions to the restructuring accrual during the second quarter of 2016 totaled $1,874 (US$1,441) and represent expected employee related payouts resulting from the closure of the operating facility in Detroit, Michigan as described above.

**(3) Tax impact of above items (For the nine months ended September 30, 2016)**

The tax impact of the adjustments recorded to income during the second quarter of 2016 (and reflected in the unusual and other items recognized during the nine months ended September 30, 2016) of $558 represents solely the corresponding tax effect on the $1,810 in restructuring costs incurred in Meschede, Germany. The $34,579 in impairment charges and $1,874 in restructuring costs related to the closure of the operating facility in Detroit, Michigan, as described above, resulted in tax losses that were not benefitted and, as a result, not recognized as a deferred tax asset. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of taxable temporary differences; however, forming a conclusion on the realization of deferred tax assets requires judgment when there are recent tax losses.

**(4) Executive separation agreement**

On July 14, 2015, Danny Infusino stepped down as the Company's Executive Vice President of Business Development and Engineering and Vice President of Operations. The costs added back for Adjusted Net Income purposes represents Mr. Infusino's termination benefits (included in SG&A expense) as set out in his employment contract payable over an eighteen month period.

**(5) Loss on sale of assets and liabilities held for sale**

During the second quarter of 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specialized in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets were sold for proceeds of $20.6 million (€14.6 million) resulting in a pre-tax loss on sale of $0.4 million (€0.3 million).

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

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | | | | | | |
|---|---|---|---|---|---|---|
| Net Income | $ | 29,098 | $ | 15,469 | 13,629 | 88.1% |
| Adjusted Net Income | $ | 29,098 | $ | 25,899 | 3,199 | 12.4% |
| Net Earnings per Share | | | | | | |
| Basic | $ | 0.34 | $ | 0.18 | | |
| Diluted | $ | 0.34 | $ | 0.18 | | |
| Adjusted Net Earnings per Share | | | | | | |
| Basic | $ | 0.34 | $ | 0.30 | | |
| Diluted | $ | 0.34 | $ | 0.30 | | |

Net Income, before adjustments, for the third quarter of 2016 increased by $13.6 million to $29.1 million from $15.5 million for the third quarter of 2015 largely as a result of the unusual and other items incurred during the third quarter of 2015 as explained in Table A

under “Adjustments to Net Income”. Excluding these unusual and other items, net income for the third quarter of 2016 increased to $29.1 million or $0.34 per share, on a basic and diluted basis, from $25.9 million or $0.30 per share, on a basic and diluted basis, for the third quarter of 2015.

Adjusted Net Income for the third quarter of 2016, as compared to the third quarter of 2015, was positively impacted by the following:

- productivity and efficiency improvements at certain operating facilities;
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business; and
- a slightly lower effective tax rate on adjusted income due generally to the mix of earnings (24.4% for the third quarter of 2016 compared to 26.1% for the third quarter of 2015).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

**Three months ended September 30, 2016 actual to guidance comparison:**

On August 2, 2016, the Company provided the following guidance for the third quarter of 2016:

| | | Guidance | | Actual |
|---|---|---|---|---|
| Production sales (in millions) | $ | 880 - 920 | $ | 877 |
| Net Earnings per Share | | | | |
| Basic & Diluted | $ | 0.33 - 0.37 | $ | 0.34 |

For the third quarter of 2016, while Net Earnings per Share of $0.34 was within the range of published guidance, production sales of $877 million came in slightly below the published sales guidance range due to lower than expected production volumes on certain OEM light vehicle platforms.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Net Income | $ | 61,627 | $ | 79,299 | (17,672) | (22.3%) |
| Adjusted Net Income | $ | 99,332 | $ | 89,729 | 9,603 | 10.7% |
| Net Earnings per Share | | | | | | |
| Basic | $ | 0.71 | $ | 0.93 | | |
| Diluted | $ | 0.71 | $ | 0.92 | | |
| Adjusted Net Earnings per Share | | | | | | |
| Basic | $ | 1.15 | $ | 1.05 | | |
| Diluted | $ | 1.15 | $ | 1.04 | | |

Net Income, before adjustments, for the nine months ended September 30, 2016 decreased by $17.7 million to $61.6 million from $79.3 million for the nine months ended September 30, 2015 largely as a result of the impact of the unusual and other items incurred during the nine months ended September 30, 2016 and 2015 as explained in Table B under “Adjustments to Net Income”. Excluding these unusual and other items, net income for the nine months ended September 30, 2016 increased to $99.3 million or $1.15 per share, on a basic and diluted basis, from $89.7 million or $1.05 per share, on a basic basis, and $1.04 per share, on a diluted basis, for the nine months ended September 30, 2015.

Adjusted Net Income for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- recently added new greenfield operating facilities which continue to ramp up and execute their backlogs of business; and
- a year-over-year decrease in finance expense on the Company’s bank debt.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs;
- a year-over-year increase in SG&A as previously discussed;
- a net foreign exchange loss of $2.7 million for the nine months ended September 30, 2016 compared to a net foreign exchange gain of $4.0 million for the comparative period of 2015; and
- a slight year-over-year increase in research and development expenses, due predominantly to increased amortization of development costs.

## ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Additions to PP&E | $ 43,739 | $ 44,801 | (1,062) | (2.4%) |

Additions to PP&E decreased by $1.1 million to $43.7 million in the third quarter of 2016 from $44.8 million in the third quarter of 2015 due generally to the timing of expenditures. Additions as a percentage of sales remained consistent year-over-year at 4.8%. 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 third quarter of 2016 continued to be for manufacturing equipment and multiple expansions/new operating facilities for programs that recently launched or will be launching over the next 24 months.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Additions to PP&E | $ 136,733 | $ 129,536 | 7,197 | 5.6% |

Additions to PP&E increased by $7.2 million year-over-year to $136.7 million for the nine months ended September 30, 2016 compared to $129.5 million for the nine months ended September 30, 2015 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales remained consistent year-over-year at 4.6%. The Company continues to make investments in the business in particular at new greenfield operating facilities as these new plants execute on their backlogs of new business.

## SEGMENT ANALYSIS

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

***Three months ended September 30, 2016 to three months ended September 30, 2015 comparison***

| | SALES | | OPERATING INCOME (LOSS)* | |
|---|---|---|---|---|
| | **Three months ended September 30, 2016** | **Three months ended September 30, 2015** | **Three months ended September 30, 2016** | **Three months ended September 30, 2015** |
| North America | $ 734,924 | $ 745,034 | $ 39,057 | $ 38,117 |
| Europe | 152,080 | 163,982 | 6,842 | 5,401 |
| Rest of the World | 27,721 | 20,864 | (2,505) | (3,290) |
| Adjusted Operating Income | - | - | $ 43,394 | $ 40,228 |
| Unusual and Other Items* | - | - | - | (15,391) |
| Total | $ 914,725 | $ 929,880 | $ 43,394 | $ 24,837 |

** Operating income for the operating segments has been adjusted for unusual and other items. Of the $15.4 million of unusual and other items incurred during the third quarter of 2015, $14.0 million was incurred in Europe and $1.4 million in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

**North America**

Adjusted Operating Income in North America increased by $1.0 million to $39.1 million for the third quarter of 2016 from $38.1 million for the third quarter of 2015 despite lower sales. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities; partially offset by operational inefficiencies and other costs at certain other facilities and general sales mix, including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

**Europe**

Adjusted Operating Income in Europe increased by $1.4 million to $6.8 million for the third quarter of 2016 from $5.4 million for the third quarter of 2015 despite lower sales. The operating results in Europe were positively impacted by a recently added new greenfield operating facility in Spain, which continues to ramp up and execute its backlogs of new business. Operating income in the Company's Martinrea Honsel Germany operations remained consistent year-over-year despite lower production volumes including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015. The Company's operating facilities in Meschede, Germany have benefitted from the restructuring activities undertaken during 2015 and the second quarter of 2016.

**Rest of the World**

The operating results for the Rest of the World operating segment improved year-over-year. The improved operating results were due to increased production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of business, partially offset by the operating results of the Company's operating facility in Brazil which decreased year-over-year due to a decline in production sales as OEM light vehicle production volumes in Brazil continue to trend at low levels.

***Nine months ended September 30, 2016 to nine months ended September 30, 2015 comparison***

| | SALES | | OPERATING INCOME (LOSS)* | |
|---|---|---|---|---|
| | **Nine months ended September 30, 2016** | **Nine months ended September 30, 2015** | **Nine months ended September 30, 2016** | **Nine months ended September 30, 2015** |
| North America | $ 2,408,861 | $ 2,256,856 | $ 129,477 | $ 120,401 |
| Europe | 484,313 | 517,345 | 27,171 | 21,450 |
| Rest of the World | 84,826 | 57,256 | (4,917) | (7,675) |
| Adjusted Operating Income | - | - | $ 151,731 | $ 134,176 |
| Unusual and Other Items* | - | - | (38,263) | (15,391) |
| Total | $ 2,978,000 | $ 2,831,457 | $ 113,468 | $ 118,785 |

** Operating income for the operating segments has been adjusted for unusual and other items. Of the $38.3 million of unusual and other items incurred during the nine months ended September 30, 2016, $36.5 million was incurred in North America and $1.8 million in Europe. Of the $15.4 million of unusual and other items incurred during the nine months ended September 30, 2015, $14.0 million was incurred in Europe and $1.4 million in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

**North America**

Adjusted Operating Income in North America increased by $9.1 million to $129.5 million for the nine months ended September 30, 2016 from $120.4 million for the nine months ended September 30, 2015. Adjusted Operating Income in North America was positively impacted by higher gross margin from an overall increase in year-over-year sales as previously explained and productivity and efficiency improvements at certain operating facilities. These factors were partially offset by operational inefficiencies and other costs at certain other facilities, and general sales mix including lower production volumes on the Chrysler 200, Ford Escape/Focus, GM Equinox and certain other programs.

**Europe**

Adjusted Operating Income in Europe increased by $5.7 million to $27.2 million for the nine months ended September 30, 2016 from $21.5 million for the nine months ended September 30, 2015. The operating results in Europe were positively impacted by recently added new greenfield operating facilities in Spain and Slovakia, which continue to ramp up and execute their backlogs of new business. Operating income in the Company's Martinrea Honsel Germany operations remained consistent year-over-year despite lower production volumes including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015. The Company's operating facilities in Meschede, Germany have benefitted from the restructuring activities undertaken during 2015 and the second quarter of 2016.

**Rest of the World**

The operating results for the Rest of the World operating segment improved year-over-year. The improved operating results were due to increased production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of business, partially offset by the operating results of the Company's operating facility in Brazil which decreased year-over-year due to a decline in production sales as OEM light vehicle production volumes in Brazil continue to trend at low levels. The year-over-year increase in sales in the Company's operations in China was tempered by an unplanned OEM shutdown of one of its key light vehicle platforms during the second quarter. The program was down for seven weeks during the second quarter and came back online in July 2016.

**SUMMARY OF QUARTERLY RESULTS**
**(unaudited)**

| | 2016 | | | 2015 | | | | 2014 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Sales | 914,725 | 1,023,825 | 1,039,450 | 1,035,314 | 929,880 | 984,046 | 917,531 | 943,781 |
| Gross Margin | 99,698 | 116,222 | 111,818 | 103,829 | 96,385 | 106,379 | 95,639 | 86,474 |
| Net Income for the period | 28,827 | (27) | 32,531 | 27,826 | 15,232 | 33,607 | 30,508 | 11,926 |
| Net Income attributable to equity holders of the Company | 29,098 | (42) | 32,571 | 27,731 | 15,469 | 33,411 | 30,419 | 11,921 |
| Adjusted Net Income attributable to equity holders of the Company | 29,098 | 37,663 | 32,571 | 29,059 | 25,899 | 33,411 | 30,419 | 22,832 |
| Basic and Diluted Net Earnings per Share | 0.34 | - | 0.38 | 0.32 | 0.18 | 0.39 | 0.36 | 0.14 |
| Adjusted Basic and Diluted Net Earnings per Share | 0.34 | 0.44 | 0.38 | 0.34 | 0.30 | 0.39 | 0.36 | 0.27 |

## LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at September 30, 2016, the Company had total equity attributable to equity holders of the Company of $785.8 million. As at September 30, 2016, the Company's ratio of current assets to current liabilities was 1.3:1 (December 31, 2015 - 1.2:1). The Company's current working capital level of $253.3 million at September 30, 2016, up from $164.0 million at December 31, 2015, and credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset backed financing.

### Cash Flows

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Cash provided by operations before changes in non-cash working capital items | $ 81,571 | $ 62,114 | 19,457 | 31.3% |
| Change in non-cash working capital items | 10,902 | (38,458) | 49,360 | (128.3%) |
| | 92,473 | 23,656 | 68,817 | 290.9% |
| Interest paid | (5,336) | (6,320) | 984 | (15.6%) |
| Income taxes paid | (9,527) | (4,528) | (4,999) | 110.4% |
| Cash provided by operating activities | 77,610 | 12,808 | 64,802 | 505.9% |
| Cash provided by (used in) financing activities | (31,612) | 2,076 | (33,688) | (1,622.7%) |
| Cash used in investing activities | (65,198) | (28,649) | (36,549) | 127.6% |
| Effect of foreign exchange rate changes on cash and cash equivalents | 1,931 | 633 | 1,298 | 205.1% |
| Decrease in cash and cash equivalents | $ (17,269) | $ (13,132) | (4,137) | 31.5% |

Cash provided by operating activities during the third quarter of 2016 was $77.6 million, compared to cash provided by operating activities of $12.8 million in the corresponding period of 2015. The components for the third quarter of 2016 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $81.6 million;
- working capital items source of cash of $10.9 million comprised of an increase in trade, other payables and provisions of $13.7 million and a decrease in trade and other receivables of $0.2 million; partially offset by increases in inventories of $2.3 million and prepaid expenses and deposits of $0.7 million.
- interest paid (excluding capitalized interest) of $5.3 million; and
- income taxes paid of $9.5 million.

Cash used in financing activities during the third quarter of 2016 was $31.6 million, compared to cash provided by financing activities of $2.1 million in the corresponding period in 2015, as a result of repayments on the Company's revolving banking facility and asset backed financing arrangements of $29.1 million and $2.6 million in dividends paid.

Cash used in investing activities during the third quarter of 2016 was $65.2 million, compared to $28.6 million in the corresponding period in 2015. The components for the third quarter of 2016 primarily include the following:

- cash additions to PP&E of $62.0 million;
- capitalized development costs relating to upcoming new program launches of $3.3 million; partially offset by
- proceeds from the disposal of PP&E of $0.1 million.

Taking into account the opening cash balance of $64.8 million at the beginning of the third quarter of 2016, and the activities described above, the cash and cash equivalents balance at September 30, 2016 was $47.6 million.

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | $ Change | % Change |
|---|---|---|---|---|
| Cash provided by operations before changes in non-cash working capital items | $ 260,528 | $ 226,465 | 34,063 | 15.0% |
| Change in non-cash working capital items | (39,094) | (53,697) | 14,603 | (27.2%) |
| | 221,434 | 172,768 | 48,666 | 28.2% |
| Interest paid | (15,336) | (17,434) | 2,098 | (12.0%) |
| Income taxes paid | (40,795) | (49,085) | 8,290 | (16.9%) |
| Cash provided by operating activities | 165,303 | 106,249 | 59,054 | 55.6% |
| Cash provided (used in) financing activities | 29,567 | (26,643) | 56,210 | (211.0%) |
| Cash used in investing activities | (174,225) | (125,543) | (48,682) | 38.8% |
| Effect of foreign exchange rate changes on cash and cash equivalents | (1,976) | 1,432 | (3,408) | (238.0%) |
| Increase (Decrease) in cash and cash equivalents | $ 18,669 | $ (44,505) | 63,174 | (141.9%) |

Cash provided by operating activities during the nine months ended September 30, 2016 was $165.3 million, compared to cash provided by operating activities of $106.2 million in the corresponding period of 2015. The components for the nine months ended September 30, 2016 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $260.5 million;
- working capital items use of cash of $39.1 million comprised of an increase in trade and other receivables of $66.0 million and an increase in prepaid expenses and deposits of $1.5 million; partially offset by a decrease in inventories of $6.0 million and an increase in trade, other payables and provisions of $22.4 million;
- interest paid (excluding capitalized interest) of $15.3 million; and
- income taxes paid of $40.8 million.

Cash provided in financing activities during the nine months ended September 30, 2016 was $29.6 million, compared to cash used of $26.6 million in the corresponding period in 2015, as a result of a $37.3 million net increase in long term debt (including repayments on the Company's revolving credit facility and asset based financing arrangements) and $0.1 million in proceeds from the exercise of employee stock options; partially offset by $7.8 million in dividends paid.

Cash used in investing activities during the nine months ended September 30, 2016 was $174.2 million, compared to $125.5 million in the corresponding period in 2015. The components for the nine months ended September 30, 2016 primarily include the following:

- cash additions to PP&E of $164.9 million;
- capitalized development costs relating to upcoming new program launches of $9.7 million; partially offset by
- proceeds from the disposal of PP&E of $0.4 million.

Taking into account the opening cash balance of $28.9 million at the beginning of 2016, and the activities described above, the cash and cash equivalents balance at September 30, 2016 was $47.6 million.

**Financing**

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 $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.

As at September 30, 2016, the Company had drawn $273.0 million on the Canadian revolving credit line and US$270.0 million on the U.S. revolving credit line.

Net debt (i.e. long term debt less cash on hand) decreased by $3.4 million from $684.8 million at June 30, 2016 to $681.4 million at September 30, 2016. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.96x at the end of the third quarter of 2016 from 2.00x at the end of the second quarter of 2016.

The Company was in compliance with its debt covenants as at September 30, 2016.

**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; with successive quarterly dividends paid thereafter, the most recent quarterly dividend being paid on October 17, 2016. 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 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to 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 September 30, 2016 the amount of off-balance sheet program financing was $90.6 million (December 31, 2015 - $85.5 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 forming the Martinrea Honsel group. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction, acquiring 55%, with Anchorage owning the remaining 45%.

Martinrea Honsel develops and manufactures complex aluminum products using state-of-the-art production technologies including high pressure die-casting, permanent mold, sand casting and rolling.

The Martinrea Honsel group provides the Company with a significant presence in the aluminum automotive parts market, and broadens 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.

Initially, the 2011 purchase transaction envisaged the purchase of all of Honsel's operations, which included plants in Germany located in Meschede, Nuremburg, Soest, and Nuttlar, as well as Madrid, Spain, Queretaro, Mexico, and Monte Mor, Brazil. The Nuremburg 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 Nuremburg facility to ZF, the net cash consideration for the acquisition was €62,125 ($85,272), of which Martinrea's 55% portion was €34,169 ($46,900).

As part of the transaction, the Company granted Anchorage a put option which, if exercised, would have required the Company to purchase Anchorage's 45% interest in Martinrea Honsel Holdings B.V. The put option would have become effective on April 1, 2015 with an expiry date of October 1, 2017. The put option provided a formula for determining the purchase price of the shares, designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provided an arbitration mechanism in the event that the two parties were unable to agree on the ultimate price.

On August 7, 2014, prior to the put option becoming exercisable, Martinrea acquired from Anchorage the remaining 45% equity interest in the Martinrea Honsel group for a negotiated purchase price of €160,000 ($235,667 Canadian). Effective August 7, 2014, the Martinrea Honsel group is wholly owned by Martinrea.

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany, which formed part of the above described Martinrea Honsel group, were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets of the facility were sold for proceeds of $20,638 (€14,588) resulting in a pre-tax loss on sale of $370 (€257).

The acquisition while bringing many benefits to Martinrea also provides some risks for the Company. Both the initial 2011 purchase of the 55% controlling interest and subsequent purchase of the remaining 45% equity interest in Martinrea Honsel were 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 3, 2016 and available through SEDAR at 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 November 3, 2016, the Company had 86,384,667 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at November 3, 2016, options to acquire 3,330,617 common shares were outstanding.

## CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended September 30, 2016, 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, 2015.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At September 30, 2016, the amount of the off balance sheet program financing was $90.6 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

### Financial Instruments

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 sales 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 September 30, 2016, 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 | $ | 11,240 | 0.8897 | 1 |
| Buy Mexican Peso | $ | 7,849 | 19.1103 | 3 |

| Currency | | Amount of U.S. dollars | Weighted average exchange rate of Canadian dollars | Maximum period in months |
|---|---|---|---|---|
| Sell Euro | $ | 5,620 | 0.8898 | 1 |
| Sell Canadian Dollars | $ | 35,000 | 1.3097 | 3 |

The aggregate value of these forward contracts as at September 30, 2016 was a pre-tax loss of $144 and was recorded in trade and other payables (December 31, 2015 - loss of $134 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, the Company's internal controls over financial reporting.

## CRITICAL ACCOUNTING ESTIMATES

Included in the Company's 2015 annual consolidated financial statements, as well as in the Company's 2015 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 and nine months ended September 30, 2016 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2015 annual MD&A, except for the following new accounting standards recently adopted.

### *Recently adopted accounting policies and standards*

*Deferred Share Unit Plan*

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

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

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

*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.

### Recently issued accounting standards

The IASB issued the following amendments to existing standards

*Amendments to IFRS 2, Share-Based Payments*

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the amendments has not yet been determined.

*Amendments to IAS 7, Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017. The extent of the impact of the adoption of the amendments has not yet been determined.

## 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 Company believes that the long term outlook of the automotive industry overall, while always challenging, is positive. North American automotive industry production has increased consistently since the recession of 2008-2009, with recent flattening in 2016. Future industry volumes remain uncertain although current levels are fairly robust.

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. 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 its capabilities provide it with the ability to capitalize on a broad range of opportunities. The Company has built its footprint and continues to pursue its strategies and will continue to do so in the future with a view to increasing sales 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 those related to the Company's expectations as to the growth of the Company and pursuit of its strategies, production volumes and production volume trends, the ramping up and/or launching and /or execution of programs, and any associated costs, investments in its business, management and monitoring of SG&A expenses, the expectation of no further restructuring costs associated with the Honsel acquisition, continued consolidation of automotive suppliers and opportunity for growth of individual suppliers, the Company's views of the long term outlook of the automotive industry and industry volumes, the opportunity to increase sales, the financing of future capital expenditures, and ability to fund anticipated working capital needs, the likelihood of tooling and component part supplier default, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity and ability to deal with present economic conditions, and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2015 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;

- 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;
- the cost of post-employment benefits
- impairment charges; and
- cyber security threats.

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

# MARTINREA INTERNATIONAL INC.
# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

# Martinrea International Inc.
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# Martinrea International Inc.

## Interim Condensed Consolidated Balance Sheets

*(in thousands of Canadian dollars) (unaudited)*

| | Note | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | $ 47,568 | $ 28,899 |
| Trade and other receivables | 2 | 626,673 | 586,024 |
| Inventories | 3 | 328,054 | 356,969 |
| Prepaid expenses and deposits | | 15,263 | 13,651 |
| Income taxes recoverable | | 15,143 | 10,401 |
| **TOTAL CURRENT ASSETS** | | 1,032,701 | 995,944 |
| Property, plant and equipment | 5 | 1,170,078 | 1,202,162 |
| Deferred income tax assets | | 170,875 | 182,232 |
| Intangible assets | 6 | 73,810 | 83,590 |
| **TOTAL NON-CURRENT ASSETS** | | 1,414,763 | 1,467,984 |
| **TOTAL ASSETS** | | $ 2,447,464 | $ 2,463,928 |
| **LIABILITIES** | | | |
| Trade and other payables | 8 | $ 715,118 | $ 743,096 |
| Provisions | 9 | 10,960 | 15,598 |
| Income taxes payable | | 20,920 | 29,873 |
| Current portion of long term debt | 10 | 32,409 | 43,399 |
| **TOTAL CURRENT LIABILITIES** | | 779,407 | 831,966 |
| Long term debt | 10 | 696,548 | 673,613 |
| Pension and other post-retirement benefits | | 78,401 | 67,552 |
| Deferred income tax liabilities | | 107,686 | 114,571 |
| **TOTAL NON-CURRENT LIABILITIES** | | 882,635 | 855,736 |
| **TOTAL LIABILITIES** | | 1,662,042 | 1,687,702 |
| **EQUITY** | | | |
| Capital Stock | 12 | 709,497 | 709,396 |
| Contributed surplus | | 42,869 | 42,648 |
| Accumulated other comprehensive income | | 112,208 | 147,442 |
| Accumulated deficit | | (78,753) | (123,157) |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | 785,821 | 776,329 |
| Non-controlling interest | | (399) | (103) |
| **TOTAL EQUITY** | | 785,422 | 776,226 |
| **TOTAL LIABILITIES AND EQUITY** | | $ 2,447,464 | $ 2,463,928 |

**Contingencies (note 17)**

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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|
| **SALES** | | $ 914,725 | $ 929,880 | $ 2,978,000 | $ 2,831,457 |
| Cost of sales (excluding depreciation of property, plant and equipment) | | (783,692) | (803,477) | (2,556,008) | (2,447,861) |
| Depreciation of property, plant and equipment (production) | | (31,335) | (30,018) | (94,254) | (85,193) |
| Total cost of sales | | (815,027) | (833,495) | (2,650,262) | (2,533,054) |
| **GROSS MARGIN** | | 99,698 | 96,385 | 327,738 | 298,403 |
| Research and development costs | | (5,482) | (5,911) | (17,614) | (16,785) |
| Selling, general and administrative | | (48,023) | (49,300) | (150,138) | (142,583) |
| Depreciation of property, plant and equipment (non-production) | | (2,165) | (1,861) | (6,469) | (5,403) |
| Amortization of customer contracts and relationships | | (587) | (495) | (1,710) | (1,611) |
| Impairment of assets | 7 | - | - | (34,579) | - |
| Restructuring costs | 9 | - | (13,619) | (3,684) | (13,619) |
| Loss on sale of assets and liabilities held for sale | 4 | - | (370) | - | (370) |
| Gain/(loss) on disposal of property, plant and equipment | | (47) | 8 | (76) | 753 |
| **OPERATING INCOME** | | 43,394 | 24,837 | 113,468 | 118,785 |
| Finance expense | | (6,018) | (6,325) | (18,112) | (19,429) |
| Other finance income (expense) | 14 | 770 | 807 | (2,570) | 4,059 |
| **INCOME BEFORE INCOME TAXES** | | 38,146 | 19,319 | 92,786 | 103,415 |
| Income tax expense | 11 | (9,319) | (4,087) | (31,455) | (24,068) |
| **NET INCOME FOR THE PERIOD** | | $ 28,827 | $ 15,232 | $ 61,331 | $ 79,347 |
| Non-controlling interest | | 271 | 237 | 296 | (48) |
| **NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | $ 29,098 | $ 15,469 | $ 61,627 | $ 79,299 |
| Basic earnings per share | 13 | $ 0.34 | $ 0.18 | $ 0.71 | $ 0.93 |
| Diluted earnings per share | 13 | $ 0.34 | $ 0.18 | $ 0.71 | $ 0.92 |

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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| **NET INCOME FOR THE PERIOD** | $ 28,827 | $ 15,232 | $ 61,331 | $ 79,347 |
| **Other comprehensive income (loss), net of tax:** | | | | |
| **Items that may be reclassified to net income** | | | | |
| Foreign currency translation differences for foreign operations | 15,690 | 43,758 | (35,234) | 70,498 |
| **Items that will not be reclassified to net income** | | | | |
| Actuarial gains (losses) from the remeasurement of defined benefit plans | (4,028) | (1,104) | (9,448) | 136 |
| **Other comprehensive income (loss), net of tax** | 11,662 | 42,654 | (44,682) | 70,634 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | $ 40,489 | $ 57,886 | $ 16,649 | $ 149,981 |
| | | | | |
| **Attributable to:** | | | | |
| Equity holders of the Company | 40,760 | 58,123 | 16,945 | 149,933 |
| Non-controlling interest | (271) | (237) | (296) | 48 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | $ 40,489 | $ 57,886 | $ 16,649 | $ 149,981 |

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 | - | - | - | 79,299 | 79,299 | 48 | 79,347 |
| Compensation expense related to stock options | - | 1,180 | - | - | 1,180 | - | 1,180 |
| Dividends ($0.09 per share) | - | - | - | (7,745) | (7,745) | - | (7,745) |
| Exercise of employee stock options | 14,564 | (3,906) | - | - | 10,658 | - | 10,658 |
| Other comprehensive income, net of tax | | | | | | | |
| Actuarial gains from the remeasurement of defined benefit plans | - | - | - | 136 | 136 | - | 136 |
| Foreign currency translation differences | - | - | 70,498 | - | 70,498 | - | 70,498 |
| Balance at September 30, 2015 | 708,762 | 42,621 | 126,425 | (147,790) | 730,018 | (198) | 729,820 |
| Net income for the period | - | - | - | 27,731 | 27,731 | 95 | 27,826 |
| Compensation expense related to stock options | - | 204 | - | - | 204 | - | 204 |
| Dividends ($0.03 per share) | - | - | - | (2,591) | (2,591) | - | (2,591) |
| Exercise of employee stock options | 634 | (177) | - | - | 457 | - | 457 |
| Other comprehensive income, net of tax | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | (507) | (507) | - | (507) |
| Foreign currency translation differences | - | - | 21,017 | - | 21,017 | - | 21,017 |
| Balance at December 31, 2015 | 709,396 | 42,648 | 147,442 | (123,157) | 776,329 | (103) | 776,226 |
| Net income for the period | - | - | - | 61,627 | 61,627 | (296) | 61,331 |
| Compensation expense related to stock options | - | 250 | - | - | 250 | - | 250 |
| Dividends ($0.09 per share) | - | - | - | (7,775) | (7,775) | - | (7,775) |
| Exercise of employee stock options | 101 | (29) | - | - | 72 | - | 72 |
| Other comprehensive loss, net of tax | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | (9,448) | (9,448) | - | (9,448) |
| Foreign currency translation differences | - | - | (35,234) | - | (35,234) | - | (35,234) |
| Balance at September 30, 2016 | $ 709,497 | $ 42,869 | $ 112,208 | $ (78,753) | $ 785,821 | $ (399) | $ 785,422 |

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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | | | |
| **OPERATING ACTIVITIES:** | | | | |
| Net Income for the period | $ 28,827 | $ 15,232 | $ 61,331 | $ 79,347 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 33,500 | 31,879 | 100,723 | 90,596 |
| Amortization of customer contracts and relationships | 587 | 495 | 1,710 | 1,611 |
| Amortization of development costs | 3,086 | 3,179 | 10,045 | 8,859 |
| Impairment of assets (note 7) | - | - | 34,579 | - |
| Unrealized (gains) losses on foreign exchange forward contracts | (772) | 824 | 144 | 1,641 |
| Finance costs | 6,018 | 6,325 | 18,112 | 19,429 |
| Income tax expense | 9,319 | 4,087 | 31,455 | 24,068 |
| Loss on sale of assets and liabilities held for sale (note 4) | - | 370 | - | 370 |
| (Gain)/loss on disposal of property, plant and equipment | 47 | (8) | 76 | (753) |
| Stock based compensation | 84 | 202 | 250 | 1,180 |
| Pension and other post-retirement benefits expense | 1,183 | 861 | 3,450 | 3,077 |
| Contributions made to pension and other post-retirement benefits | (308) | (1,332) | (1,347) | (2,960) |
| | 81,571 | 62,114 | 260,528 | 226,465 |
| Changes in non-cash working capital items: | | | | |
| Trade and other receivables | 185 | (20,978) | (65,961) | (61,875) |
| Inventories | (2,305) | (21,349) | 6,023 | (16,969) |
| Prepaid expenses and deposits | (693) | (4,857) | (1,513) | (10,239) |
| Trade, other payables and provisions | 13,715 | 8,726 | 22,357 | 35,386 |
| | 92,473 | 23,656 | 221,434 | 172,768 |
| Interest paid (excluding capitalized interest) | (5,336) | (6,320) | (15,336) | (17,434) |
| Income taxes paid | (9,527) | (4,528) | (40,795) | (49,085) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 77,610 | $ 12,808 | $ 165,303 | $ 106,249 |
| **FINANCING ACTIVITIES:** | | | | |
| Increase in long term debt | 66 | 13,116 | 88,876 | 32,145 |
| Repayment of long term debt | (29,087) | (10,327) | (51,607) | (61,743) |
| Dividends paid | (2,591) | (2,582) | (7,774) | (7,703) |
| Exercise of employee stock options | - | 1,869 | 72 | 10,658 |
| **NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES** | $ (31,612) | $ 2,076 | $ 29,567 | $ (26,643) |
| **INVESTING ACTIVITIES:** | | | | |
| Purchase of property, plant and equipment* | (61,981) | (45,404) | (164,942) | (137,109) |
| Capitalized development costs | (3,342) | (3,999) | (9,653) | (11,570) |
| Proceeds on sale of assets and liabilities held for sale (note 4) | - | 20,638 | - | 20,638 |
| Proceeds on disposal of property, plant and equipment | 125 | 116 | 370 | 2,498 |
| **NET CASH USED IN INVESTING ACTIVITIES** | $ (65,198) | $ (28,649) | $ (174,225) | $ (125,543) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 1,931 | 633 | (1,976) | 1,432 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (17,269) | (13,132) | 18,669 | (44,505) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 64,837 | 21,028 | 28,899 | 52,401 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 47,568 | $ 7,896 | $ 47,568 | $ 7,896 |

*As at September 30, 2016, $20,804 (December 31, 2015 - $49,013) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

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

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

These 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.

### (c) 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

*Deferred Share Unit Plan*

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

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

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

*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.

**(e) Recently issued accounting standards**

The IASB issued the following amendments to existing standards:

*Amendments to IFRS 2, Share-Based Payments*

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the amendments has not yet been determined.

*Amendments to IAS 7, Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017. The extent of the impact of the adoption of the amendments has not yet been determined.

## 2. TRADE AND OTHER RECEIVABLES

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Trade receivables | $ 613,626 | $ 567,704 |
| VAT and other receivables | 13,047 | 18,320 |
| | $ 626,673 | $ 586,024 |

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 16.

## 3. INVENTORIES

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $ 146,882 | $ 168,246 |
| Work in progress | 44,046 | 44,346 |
| Finished goods | 43,676 | 45,898 |
| Tooling work in progress and other inventory | 93,450 | 98,479 |
| | $ 328,054 | $ 356,969 |

## 4. SALE OF ASSETS AND LIABILITIES HELD FOR SALE

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets of the facility were sold for proceeds of $20,638 (€14,588) resulting in a pre-tax loss on sale of $370 (€257).

## 5. PROPERTY, PLANT AND EQUIPMENT

| | September 30, 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 | $ 158,062 | $ (39,766) | $ 118,296 | $ 151,354 | $ (38,031) | $ 113,323 |
| Leasehold improvements | 54,737 | (33,583) | 21,154 | 54,861 | (30,257) | 24,604 |
| Manufacturing equipment | 1,654,227 | (847,277) | 806,950 | 1,552,322 | (771,572) | 780,750 |
| Tooling and fixtures | 39,058 | (33,329) | 5,729 | 39,286 | (33,543) | 5,743 |
| Other assets | 39,093 | (21,805) | 17,288 | 37,262 | (19,326) | 17,936 |
| Construction in progress and spare parts | 200,661 | - | 200,661 | 259,806 | - | 259,806 |
| | $ 2,145,838 | $ (975,760) | $ 1,170,078 | $ 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 | - | 219 | 3,652 | 18 | 216 | 132,628 | 136,733 |
| Disposals | (4) | - | (198) | - | (37) | (207) | (446) |
| Depreciation | (3,004) | (3,448) | (90,037) | (1,210) | (3,024) | - | (100,723) |
| Impairment (note 7) | - | (723) | (21,021) | - | (26) | - | (21,770) |
| Transfers from construction in progress and spare parts | 11,799 | 1,270 | 165,631 | 1,381 | 2,858 | (182,939) | - |
| Foreign currency translation adjustment | (3,818) | (768) | (31,827) | (203) | (635) | (8,627) | (45,878) |
| Net as of September 30, 2016 | $ 118,296 | $ 21,154 | $ 806,950 | $ 5,729 | $ 17,288 | $ 200,661 | $ 1,170,078 |

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At September 30, 2016, the carrying value of property, plant and equipment under such arrangements was $27,240 (December 31, 2015 – $32,834). The corresponding amounts owing are reflected within long term debt (note 10).

## 6. INTANGIBLE ASSETS

| | September 30, 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 | $ 61,931 | $ (53,154) | $ 8,777 | $ 62,556 | $ (51,783) | $ 10,773 |
| Development costs | 133,527 | (68,494) | 65,033 | 129,906 | (57,089) | 72,817 |
| | $ 195,458 | $ (121,648) | $ 73,810 | $ 192,462 | $ (108,872) | $ 83,590 |

Movement in intangible assets is summarized as follows:

| | Customer contracts and relationships | Development costs | Total |
|---|---|---|---|
| Net as of 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 as of December 31, 2015 | $ 10,773 | $ 72,817 | $ 83,590 |
| Additions | - | 9,653 | 9,653 |
| Amortization | (1,710) | (10,045) | (11,755) |
| Impairment (note 7) | - | (4,179) | (4,179) |
| Foreign currency translation adjustment | (286) | (3,213) | (3,499) |
| Net as of September 30, 2016 | $ 8,777 | $ 65,033 | $ 73,810 |

## 7. IMPAIRMENT OF ASSETS

During the second quarter of 2016, the Company recorded impairment charges on property, plant, equipment, intangible assets and inventories totalling $34,579 (US $26,599) related to an operating facility in Detroit, Michigan included in the North American operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This has led to a decision to close the facility. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Property, plant and equipment | $ - | $ - | $ 21,770 | $ - |
| Intangible Assets – Development costs | - | - | 4,179 | - |
| Inventories | - | - | 8,630 | - |
| Total Impairment | $ - | $ - | $ 34,579 | $ - |

## 8. TRADE AND OTHER PAYABLES

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Trade accounts payable and accrued liabilities | $ 714,974 | $ 742,962 |
| Foreign exchange forward contracts (note 16(d)) | 144 | 134 |
| | $ 715,118 | $ 743,096 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

## 9. 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 | 3,684 | 333 | 4,017 |
| Amounts used during the period | (8,199) | (422) | (8,621) |
| Foreign currency translation adjustment | (201) | 167 | (34) |
| Net as of September 30, 2016 | $ 9,310 | $ 1,650 | $ 10,960 |

Based on estimated cash outflows, all provisions as at September 30, 2016 and December 31, 2015 are presented on the interim condensed consolidated balance sheet as current.

**(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. Additional restructuring costs in Meschede, Germany in the form of employee related severance of $1,810 (€1,238) were incurred during the second quarter of 2016. No further costs related to this restructuring are expected to be incurred.

Other additions to the restructuring accrual during 2016 totalled $1,874 (US$1,441) and represent expected employee related payouts resulting from the closure of the operating facility in Detroit, Michigan as described in note 7.

**(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.

## 10. 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 16.

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Banking facility | $ 623,278 | $ 574,818 |
| Equipment loans | 105,679 | 142,194 |
| | 728,957 | 717,012 |
| Current portion | (32,409) | (43,399) |
| | $ 696,548 | $ 673,613 |

Terms and conditions of outstanding loans as at September 30, 2016, in Canadian dollar equivalents, are as follows:

| | Currency | Nominal interest rate | Year of maturity | | September 30, 2016 Carrying amount | | December 31, 2015 Carrying amount |
|---|---|---|---|---|---|---|---|
| Banking facility | USD | LIBOR+2.0% | 2020 | $ | 354,159 | $ | 304,480 |
| | CAD | BA+2.0% | 2020 | | 269,119 | | 270,338 |
| Equipment loans | USD | 4.25% | 2018 | | 30,586 | | 42,926 |
| | EUR | 3.06% | 2024 | | 15,950 | | 16,267 |
| | EUR | 2.54% | 2025 | | 15,238 | | 15,537 |
| | EUR | 4.93% | 2023 | | 14,945 | | 15,509 |
| | USD | 7.36% | 2017 | | 7,496 | | 12,319 |
| | USD | 4.25% | 2017 | | 7,179 | | 14,100 |
| | EUR | 3.37% | 2017 | | 4,415 | | 7,988 |
| | EUR | 3.35% | 2019 | | 4,313 | | 5,419 |
| | EUR | 4.34% | 2025 | | 3,162 | | 3,225 |
| | EUR | 1.36% | 2021 | | 884 | | 902 |
| | USD | 3.99% | 2017 | | 782 | | 2,642 |
| | EUR | 0.26% | 2025 | | 367 | | 352 |
| | BRL | 5.00% | 2020 | | 214 | | 221 |
| | USD | 4.69% | 2017 | | 148 | | 619 |
| | USD | 3.89% | 2016 | | - | | 3,136 |
| | USD | 3.65% | 2016 | | - | | 1,032 |
| | | | | $ | 728,957 | $ | 717,012 |

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.

As at September 30, 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 September 30, 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 September 30, 2016.

Deferred financing fees of $4,193 (December 31, 2015 - $2,994) have been netted against the carrying amount of the long term debt.

Future annual minimum principal repayments are as follows:

| | | |
|---|---|---|
| Within one year | $ | 32,409 |
| One to two years | | 18,910 |
| Two to three years | | 6,761 |
| Three to four years | | 630,194 |
| Thereafter | | 40,683 |
| | $ | 728,957 |

## 11. INCOME TAXES

The components of income tax expense are as follows:

| | | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|
| Current income tax expense | $ | (7,011) $ | (8,944) $ | (31,653) $ | (40,315) |
| Deferred income tax recovery (expense) | | (2,308) | 4,857 | 198 | 16,247 |
| Total income tax expense | $ | (9,319) $ | (4,087) $ | (31,455) $ | (24,068) |

## 12. CAPITAL STOCK

| **Common shares outstanding:** | **Number** | | **Amount** |
|---|---|---|---|
| Balance, December 31, 2014 | 84,925,083 | $ | 694,198 |
| Exercise of stock options | 1,401,250 | | 14,564 |
| Balance, September 30, 2015 | 86,326,333 | $ | 708,762 |
| Exercise of stock options | 48,334 | | 634 |
| Balance, December 31, 2015 | 86,374,667 | $ | 709,396 |
| Exercise of stock options | 10,000 | | 101 |
| Balance, September 30, 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:

| | Nine months ended September 30, 2016 | | | Nine months ended September 30, 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 |
| Granted during the period | - | | - | 150,000 | | 13.87 |
| Exercised during the period | (10,000) | | 7.20 | (1,401,250) | | 7.61 |
| Cancelled during the period | (1,000,000) | | 16.15 | - | | - |
| Balance, end of period | 3,330,617 | $ | 11.26 | 4,393,952 | $ | 12.35 |
| Options exercisable, end of period | 3,080,617 | $ | 11.21 | 4,018,952 | $ | 12.38 |

The following is a summary of the issued and outstanding common share purchase options as at September 30, 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 and nine months ended September 30, 2016, the Company expensed $84 (three months ended September 30, 2015 - $202) and $250 (nine months ended September 30, 2015 - $1,180), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

**Deferred Share Unit Plan**

The details of the Company's DSUs described in Note 1 (d) are as follows:

| | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Units outstanding, beginning of period | | - | | - |
| Units granted during the period | | 31,011 | | - |
| Units settled during the period | | - | | - |
| Units for dividends earned during the period | | 106 | | - |
| Units outstanding, end of period | | 31,117 | | - |
| Weighted average fair value per unit on date of grant | $ | 9.67 | $ | - |

The 31,117 DSUs granted during the period were granted to non-executive directors and are not subject to vesting conditions. At September 30, 2016, the intrinsic value of the DSUs amounted to $254. DSU compensation expense of $254 was recognized for nine months ended September 30, 2016.

## 13. EARNINGS PER SHARE

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

| | Three months ended September 30, 2016 | | | Three months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Weighted average number of shares | | Per common share amount | Weighted average number of shares | | Per common share amount |
| Basic | 86,384,667 | $ | 0.34 | 86,202,806 | $ | 0.18 |
| Effect of dilutive securities: | | | | | | |
| Stock options | 122,643 | | - | 564,701 | | - |
| Diluted | 86,507,310 | $ | 0.34 | 86,767,507 | $ | 0.18 |

| | Nine months ended September 30, 2016 | | | Nine months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Weighted average number of shares | | Per common share amount | Weighted average number of shares | | Per common share amount |
| Basic | 86,384,557 | $ | 0.71 | 85,700,123 | $ | 0.93 |
| Effect of dilutive securities: | | | | | | |
| Stock options | 185,198 | | - | 564,869 | | (0.01) |
| Diluted | 86,569,755 | $ | 0.71 | 86,264,992 | $ | 0.92 |

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 September 30, 2016, 2,332,450 options (three months ended September 30, 2015, – 1,940,000) and for the nine months ended September 30, 2016, 2,090,749 options (nine months ended September 30, 2015, – 2,057,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

## 14. OTHER FINANCE INCOME (EXPENSE)

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net foreign exchange gain (loss) | $ 676 | $ 777 | $ (2,722) | $ 3,999 |
| Other income, net | 94 | 30 | 152 | 60 |
| Other finance income (expense) | $ 770 | $ 807 | $ (2,570) | $ 4,059 |

## 15. 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 September 30, 2016 | | Three months ended September 30, 2015 | |
|---|---|---|---|---|
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | $ 181,893 | | $ 195,572 | |
| USA | 359,010 | | 368,066 | |
| Mexico | 194,021 | | 181,396 | |
| | $ 734,924 | $ 39,057 | $ 745,034 | $ 36,715 |
| Europe | | | | |
| Germany | 97,717 | | 118,580 | |
| Spain | 41,849 | | 34,162 | |
| Slovakia | 12,514 | | 11,240 | |
| | 152,080 | 6,842 | 163,982 | (8,588) |
| Rest of the World | 27,721 | (2,505) | 20,864 | (3,290) |
| | $ 914,725 | $ 43,394 | $ 929,880 | $ 24,837 |

| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|---|---|---|---|---|
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | $ 605,100 | | $ 607,063 | |
| USA | 1,191,230 | | 1,086,773 | |
| Mexico | 612,531 | | 563,020 | |
| | $ 2,408,861 | $ 93,024 | $ 2,256,856 | $ 118,999 |
| Europe | | | | |
| Germany | 313,723 | | 385,196 | |
| Spain | 128,919 | | 97,629 | |
| Slovakia | 41,671 | | 34,520 | |
| | 484,313 | 25,362 | 517,345 | 7,461 |
| Rest of the World | 84,826 | (4,918) | 57,256 | (7,675) |
| | $ 2,978,000 | $ 113,468 | $ 2,831,457 | $ 118,785 |

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

## 16. 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.

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

| | September 30, 2016 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 47,568 | $ 47,568 | $ - | $ - |
| Foreign exchange forward contracts (note 8) | $ (144) | $ - | $ (144) | $ - |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 28,899 | $ 28,899 | $ - | $ - |
| Foreign exchange forward contracts (note 8) | $ (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:

| **September 30, 2016** | **Fair value through profit or loss** | **Loans and receivables** | **Amortized cost** | **Carrying amount** | **Fair value** |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | |
| Trade and other receivables | $ - | $ 626,673 | $ - | $ 626,673 | $ 626,673 |
| | - | 626,673 | - | 626,673 | 626,673 |
| **FINANCIAL LIABILITIES:** | | | | | |
| Trade and other payables | - | - | (714,974) | (714,974) | (714,974) |
| Long-term debt | - | - | (728,957) | (728,957) | (728,957) |
| Foreign exchange forward contracts | (144) | - | - | (144) | (144) |
| | (144) | - | (1,443,931) | (1,444,075) | (1,444,075) |
| **Net financial assets (liabilities)** | $ (144) | $ 626,673 | $ (1,443,931) | $ (817,402) | $ (817,402) |

| 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.

**(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 91% (December 31, 2015 - 88%) 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 September 30, 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:

| | | September 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| 0-60 days | $ | 584,607 | $ | 515,741 |
| 61-90 days | | 11,866 | | 22,729 |
| Greater than 90 days | | 17,153 | | 29,234 |
| | $ | 613,626 | $ | 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 September 30, 2016, the Company had cash of $47,568 and banking facilities available as discussed in note 10. 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 10.

**(c) Interest rate risk**

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

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

| | Carrying amount | | | |
|---|---|---|---|---|
| | | September 30, 2016 | | December 31, 2015 |
| Variable rate instruments | $ | 623,278 | $ | 574,818 |
| Fixed rate instruments | | 105,679 | | 142,194 |
| | $ | 728,957 | $ | 717,012 |

**Sensitivity analysis**

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $1,585 (three months ended September 30, 2015 - $1,442) on the Company's interim consolidated financial results for the three months ended September 30, 2016 and $4,668 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - $4,316).

**(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 sales 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 September 30, 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 | $ | 11,240 | 0.8897 | 1 |
| Buy Mexican Peso | $ | 7,849 | 19.1103 | 3 |

| Currency | | Amount of U.S. dollars | Weighted average exchange rate of Canadian dollars | Maximum period in months |
|---|---|---|---|---|
| Sell Euro | $ | 5,620 | 0.8898 | 1 |
| Sell Canadian Dollars | $ | 35,000 | 1.3097 | 3 |

The aggregate value of these forward contracts as at September 30, 2016 was a pre-tax loss of $144 and was recorded in trade and other payables (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:

| September 30, 2016 | | USD | | EURO | | PESO | | BRL | | CNY |
|---|---|---|---|---|---|---|---|---|---|---|
| Trade and other receivables | $ | 330,546 | € | 69,493 | $ | 34,379 | R$ | 18,704 | ¥ | 140,862 |
| Trade and other payables | | (337,486) | | (81,347) | | (108,275) | | (23,306) | | (81,387) |
| Long-term debt | | (305,454) | | (40,223) | | - | | (529) | | - |
| | $ | (312,394) | € | (52,077) | $ | (73,896) | R$ | (5,131) | ¥ | 59,475 |

| 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 and nine months ended September 30, 2016 and 2015:

| | Average rate | | Average rate | | Closing rate | |
|---|---|---|---|---|---|---|
| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | September 30, 2016 | December 31, 2015 |
| USD | 1.2965 | 1.2785 | 1.3290 | 1.2404 | 1.3117 | 1.3840 |
| EURO | 1.4491 | 1.4224 | 1.4777 | 1.3967 | 1.4736 | 1.5029 |
| PESO | 0.0698 | 0.0800 | 0.0736 | 0.0810 | 0.0676 | 0.0805 |
| BRL | 0.3944 | 0.3902 | 0.3687 | 0.4131 | 0.4043 | 0.3494 |
| CNY | 0.1953 | 0.2046 | 0.2027 | 0.1991 | 0.1967 | 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 September 30, 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 and nine months ended September 30, 2016 by the amounts shown below, assuming all other variables remain constant:

| | | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|---|---|---|
| USD | $ | (2,054) | $ | (1,640) | $ | (3,377) | $ | (5,346) |
| EURO | | (830) | | 177 | | (2,411) | | (1,391) |
| BRL | | 149 | | 167 | | 521 | | 361 |
| CNY | | 135 | | 296 | | 186 | | 632 |
| | $ | (2,600) | $ | (1,000) | $ | (5,081) | $ | (5,744) |

A weakening of the Canadian dollar against the above currencies at September 30 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 income 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.

## 17. 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 $78,500 (BRL $198,163) including interest and penalties to September 30, 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 $54,239 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.

## 18. 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 September 30, 2016, the amount of the program financing was $90,624 (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.

# MARTINREA INTERNATIONAL INC.

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