MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2017

MESSAGE TO SHAREHOLDERS

2017 was an outstanding year for Martinrea and our people. It was a year in which we continued to drive our culture throughout the organization, as we focused on our vision, delivered on our mission and applied our Ten Guiding Principles. We continued to instill our lean thinking way into our operations, and our entrepreneurial can do attitude was evident in our locations. And, side by side with driving our culture, we saw a record year in financial performance, as earnings, earnings per share, and cash flow all improved to all time highs. Just as importantly, the promises we made at the end of 2014, that we would see a 50% improvement in operating margin by the end of 2017, and that we would see a significantly strengthened balance sheet with a net debt:adjusted ebitda ratio of 1.5:1 by the end of 2017, were met. We made commitments to you, and we met them, on time and as promised.

Let’s outline key operational and financial highlights of 2017, as discussed in detail in this annual report:

- Revenues of $3.69 billion, down somewhat from 2016, as we saw a change in certain customer contracts, moving to a value added model from a pass through model
- We achieved record earnings performance, with adjusted net earnings of approximately $166 million, up 27.2% from 2016, or fully diluted adjusted net earnings per share of $1.91, the best performance in our history, and our eighth consecutive year of increased adjusted earnings
- Our adjusted operating income margin increased to 6.4% for the year, up from 5% last year, 4.6% in 2015 and 4.1% in 2014, as we more than met our publicly announced target of 6% by the end of 2017
- We achieved record adjusted EBITDA performance in 2017 of approximately $401 million, up from approximately $350 million in 2016, representing a 14.6% increase
- Our net debt:adjusted EBITDA ratio ended the year at 1.45:1, compared to 1.89:1 at the end of 2016, 2.17:1 at the end of 2015 and 2.37:1 at the end of 2014, as we met our targeted net debt:adjusted EBITDA ratio of 1.5:1 by the end of 2017
- We continued to advance our quality, and received multiple customer quality awards, including top supplier awards from Nissan, Ford, GM, JLR and FCA. We also have received supplier diversity awards as we work with a culturally diverse supply base
- We launched many new programs in 2017, successfully
- Company wide safety performance continued to improve; already we were better than industry averages, but we will not settle for average. We strive towards our goal of being the industry leader in safety.

These financial metrics were achieved in an industry where volumes were flattish across our markets, on average. Overall, we continue to remain bullish about the state of our industry and our position in it. The automotive industry is a wonderful place to be, at the leading edge of many technologies, ranging from electrification initiatives to driverless and many others. Our core product offerings remain essential to our markets, as every vehicle, regardless of how it is propelled or who is at the wheel, requires safe and strong structures, as well as a power plant, that are lightweight. We are at the forefront of the trend to lightweighting of vehicles, in order to improve fuel economy or reduce carbon footprint. Electric vehicles give us great opportunities in a variety of new products, such as battery housings and electric motors. Our fluid management products will be core products on vehicles for a very long time, as we remain a leading edge provider of environmentally friendly fluid systems, including thermal management, with some great products such as capless filler systems and battery cooling systems for electric vehicles.

At Martinrea, we are spending a lot of time on culture. Because culture matters. It drives operational and financial performance over time. We believe that the improvements in our financial metrics go hand in hand with driving our culture as expressed in our vision, mission and Ten Guiding Principles. People don't come to work just to hit a margin percentage, or make a part, or fix a machine, or to get a paycheque. In most cases at least. People need to believe in something bigger than their job. They want to make people's lives better, and that is more true of today's workforce than ever before. People come to work, and perform well, when they are treated with dignity and respect, when they can see that they are part of a team, when they are provided with a safe work environment both physically and psychologically, and when they can see how they help make people's lives better. Study after study shows that commitment firms that operate this way outperform over time. They tend to have higher profitability ratios, tend to be leaner, tend to have fewer middle managers, tend to have engaged employees, tend to have less employee turnover, tend to have more employee satisfaction, and tend to "own" their work.

We are seeing the results of our focus on corporate culture in our improving performance. We remember that Martinrea was built in part through acquisitions of distressed assets, where more than operating performance was weak; where morale and culture also needed some improvement. Our One Martinrea culture and focus is driving results, and we believe will drive performance that our people have not yet seen.

Looking forward to 2018 we anticipate another record year of financial performance. We anticipate continuing margin improvement in 2018 and the years beyond. We will continue to drive quality, entrepreneurship, lean thinking and safety. And yes we will continue to embrace our culture of making people's lives better, by being the best supplier of products and services we can be, fulfilling our mission and driving a principles based company, built to last and thrive. You can count on that.

We are blessed with great stakeholders, and we thank all for their continuing support. Our strength is in our people and we thank our employees. We thank our customers for their strong support. Our lenders and shareholders have been very supportive and we thank you. And we continue to be privileged by having our operations in great communities, who contribute to our success and where we work hard to improve people's lives.

At Martinrea, we are writing a great book, we believe, and 2017 was a really good chapter. We look forward to the next one, which we are currently writing for you, as we continue to form our future.

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

(Signed) *"Pat D'Eramo"*

Pat D'Eramo
President and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the Year ended December 31, 2017

The following management discussion and analysis ("MD&A") was prepared as of March 1, 2018 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017 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, 2017, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs approximately 15,000 skilled and motivated people in 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 years ended December 31, 2017 and 2016. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2017 for a detailed account of the Company's performance for the periods presented in the table below.

		Year ended December 31, 2017		Year ended December 31, 2016	$ Change	% Change
Sales	$	3,690,499	$	3,968,407	(277,908)	(7.0%)
Gross Margin		484,601		432,050	52,551	12.2%
Operating Income		246,624		159,444	87,180	54.7%
Net Income for the period		159,266		91,961	67,305	73.2%
Net Income Attributable to Equity Holders of the Company	$	159,543	$	92,380	67,163	72.7%
Net Earnings per Share – Basic and Diluted	$	1.84	$	1.07	0.77	72.0%
Non-IFRS Measures*						
Adjusted Operating Income	$	236,807	$	197,707	39,100	19.8%
% of Sales		*6.4%*		*5.0%*		
Adjusted EBITDA		401,493		350,357	51,136	14.6%
% of Sales		*10.9%*		*8.8%*		
Adjusted Net Income Attributable to Equity Holders of the Company		165,519		130,085	35,434	27.2%
Adjusted Net Earnings per Share – Basic	$	1.91	$	1.51	0.40	26.5%
Adjusted Net Earnings per Share – Diluted	$	1.91	$	1.50	0.41	27.3%

The following table sets out a detailed account of the Company's performance for the fourth quarters of 2017 and 2016 (unaudited).

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Sales	$ 878,642	$ 990,407	(111,765)	(11.3%)
Cost of sales (excluding depreciation)	(716,927)	(852,732)	135,805	(15.9%)
Depreciation of property, plant and equipment (production)	(37,673)	(33,363)	(4,310)	12.9%
Gross Margin	124,042	104,312	19,730	18.9%
Research and development costs	(6,600)	(7,239)	639	(8.8%)
Selling, general and administrative	(52,531)	(47,971)	(4,560)	9.5%
Depreciation of property, plant and equipment (non-production)	(2,596)	(2,258)	(338)	15.0%
Amortization of customer contracts and relationships	(530)	(597)	67	(11.2%)
Impairment of assets	(7,488)	-	(7,488)	-
Gain on sale of land and building	13,374	-	13,374	-
Loss on disposal of property, plant and equipment	(144)	(271)	127	(46.9%)
Operating Income	$ 67,527	$ 45,976	21,551	46.9%
Finance expense	(5,735)	(6,084)	349	(5.7%)
Other finance income	2,681	661	2,020	305.6%
Income before taxes	$ 64,473	$ 40,553	23,920	59.0%
Income tax expense	(32,107)	(9,923)	(22,184)	223.6%
Net Income for the period	32,366	30,630	1,736	5.7%
Net Income Attributable to Equity Holders of the Company	$ 32,366	$ 30,753	1,613	5.2%
Net Earnings per Share - Basic and Diluted	$ 0.37	$ 0.36	0.01	2.8%
Non-IFRS Measures*				
Adjusted Operating Income	$ 61,641	$ 45,976	15,665	34.1%
% of sales	7.0%	4.6%		
Adjusted EBITDA	105,830	86,072	19,758	23.0%
% of sales	12.0%	8.7%		
Adjusted Net Income Attributable to Equity Holders of the Company	43,179	30,753	12,426	40.4%
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.50	$ 0.36	0.14	38.9%

***Non-IFRS Measures**

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

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

	Three months ended December 31, 2017	Three months ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	$ 32,366	$ 30,753
Unusual and Other Items (after-tax)*	10,813	-
Adjusted Net Income Attributable to Equity Holders of the Company	$ 43,179	$ 30,753

	Three months ended December 31, 2017	Three months ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	$ 32,366	$ 30,753
Non-controlling interest	-	(123)
Income tax expense	32,107	9,923
Other finance income – excluding Unusual and Other Items*	(359)	(661)
Finance expense	5,735	6,084
Unusual and Other Items (before-tax)*	(8,208)	-
Adjusted Operating Income	$ 61,641	$ 45,976
Depreciation of property, plant and equipment	40,269	35,621
Amortization of intangible assets	3,776	4,204
Loss on disposal of property, plant and equipment	144	271
Adjusted EBITDA	$ 105,830	$ 86,072

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

	Year ended December 31, 2017	Year ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	$ 159,543	$ 92,380
Unusual and Other Items (after-tax)*	5,976	37,705
Adjusted Net Income Attributable to Equity Holders of the Company	$ 165,519	$ 130,085

	Year ended December 31, 2017	Year ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	$ 159,543	$ 92,380
Non-controlling interest	(277)	(419)
Income tax expense	69,970	41,378
Other finance expense (income) – excluding Unusual and Other Items*	(1,442)	1,909
Finance expense	22,527	24,196
Unusual and Other Items (before-tax)*	(13,514)	38,263
Adjusted Operating Income	$ 236,807	$ 197,707
Depreciation of property, plant and equipment	149,670	136,344
Amortization of intangible assets	15,399	15,959
Loss (gain) on disposal of property, plant and equipment	(383)	347
Adjusted EBITDA	$ 401,493	$ 350,357

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

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below. Certain comparative information has been reclassified where relevant to conform to the current financial statement presentation adopted in 2017.

SALES

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
North America	$ 674,852	$ 805,487	(130,635)	(16.2%)
Europe	163,949	150,983	12,966	8.6%
Rest of the World	41,904	38,165	3,739	9.8%
Eliminations	(2,063)	(4,228)	2,165	(51.2%)
Total Sales	$ 878,642	$ 990,407	(111,765)	(11.3%)

The Company's consolidated sales for the fourth quarter of 2017 decreased by $111.8 million or 11.3% to $878.6 million as compared to $990.4 million for the fourth quarter of 2016. The decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the fourth quarter of 2017 in the Company's North America operating segment decreased by $130.6 million or 16.2% to $674.9 million from $805.5 million for the fourth quarter of 2016. The decrease was due to a $48.8 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the fourth quarter of 2017 of approximately $31.2 million as compared to the fourth quarter of 2016; and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Ford Fusion, Chevrolet Malibu, and other platforms late in their life cycle, and programs that ended production during or subsequent to the fourth quarter of 2016 such as the previous version of the GM Equinox/Terrain. These negative factors were partially offset by higher year-over-year OEM production volumes on certain light-vehicle platforms such as the Ford Escape and FCA's Pentastar engine block program; and the launch of new programs during or subsequent to the fourth quarter of 2016 including the GM Bolt and next generation GM Equinox/Terrain, fourth quarter production volumes of which were impacted by an employee strike at GM's assembly plant in Ingersoll, Ontario.

Sales for the fourth quarter of 2017 in the Company's Europe operating segment increased by $13.0 million or 8.6% to $164.0 million from $151.0 million for the fourth quarter of 2016. The increase can be attributed to a $6.4 million increase in tooling sales, a $2.5 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2016, and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler.

Sales for the fourth quarter of 2017 in the Company's Rest of the World operating segment increased by $3.7 million or 9.8% to $41.9 million from $38.2 million in the fourth quarter of 2016. The increase was due to a $4.0 million increase in tooling sales and higher year-over year production sales in the Company's operating facility in Brazil; partially offset by a $1.1 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2016, and lower year-over-year OEM production volumes on the Ford Mondeo/Taurus platforms in China.

Overall tooling sales decreased by $38.4 million to $68.8 million for the fourth quarter of 2017 from $107.2 million for the fourth quarter of 2016.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

		Year ended December 31, 2017		Year ended December 31, 2016	$ Change	% Change
North America	$	2,913,786	$	3,222,660	(308,874)	(9.6%)
Europe		657,029		636,082	20,947	3.3%
Rest of the World		132,067		122,989	9,078	7.4%
Eliminations		(12,383)		(13,324)	941	(7.1%)
Total Sales	$	3,690,499	$	3,968,407	(277,908)	(7.0%)

The Company's consolidated sales for the year ended December 31, 2017 decreased by $277.9 million or 7.0% to $3,690.5 million as compared to $3,968.4 million for the year ended December 31, 2016. The total decrease in sales was driven by a decrease in the Company's North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2017 in the Company's North America operating segment decreased by $308.9 million or 9.6% to $2,913.8 million from $3,222.7 million for the year ended December 31, 2016. The decrease was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately $47.7 million as compared to the comparative period of 2016; a $44.9 million decrease in tooling sales; and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, customer production of which ended at the end of 2016, Ford Fusion, Chevrolet Malibu, and other platforms late in their product life cycle, and programs that ended production during or subsequent to the year ended December 31, 2016 such as the previous version of the GM Equinox/Terrain. These negative factors were partially offset by a year-over-year increase in production volumes on FCA's Pentastar engine block program which was down during the first quarter of 2016 for re-tooling; higher year-over-year volumes on certain light vehicle platforms such as the Ford Escape, GM Pick-up truck/SUV platform and other GM programs previously impacted by unplanned OEM shutdowns during the second quarter of 2016 because of an earthquake in Japan which disrupted the supply chain; and the launch of new programs during or subsequent to the year ended December 31, 2016 including the GM Bolt and next generation GM Equinox/Terrain, 2017 production volumes of which were impacted by an employee strike at GM's assembly plant in Ingersoll, Ontario that lasted four weeks.

Sales for the year ended December 31, 2017 in the Company's Europe operating segment increased by $20.9 million or 3.3% to $657.0 million from $636.1 million for the year ended December 31, 2016. The increase can be attributed to higher production volumes in the Company's Martinrea Honsel German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler, and an $8.0 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately $6.3 million as compared to the comparative period of 2016.

Sales for the year ended December 31, 2017 in the Company's Rest of the World operating segment increased by $9.1 million or 7.4% to $132.1 million from $123.0 million for the year ended December 31, 2016. The increase was mainly due to a year-over-year increase in production sales in the Company's operating facility in Brazil and higher year-over-year production sales in China related to GM's CT6 vehicle platform; partially offset by a $5.1 million decrease in tooling sales and a $0.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the year ended December 31, 2016.

Overall tooling sales decreased by $42.0 million to $210.9 million for the year ended December 31, 2017 from $252.9 million for the year ended December 31, 2016.

GROSS MARGIN

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Gross margin	$ 124,042	$ 104,312	19,730	18.9%
% of Sales	14.1%	10.5%		

The gross margin percentage for the fourth quarter of 2017 of 14.1% increased as a percentage of sales by 3.6% as compared to the gross margin percentage for the fourth quarter of 2016 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;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2016; and
- a decrease in tooling sales which typically earn low margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Gross margin	$ 484,601	$ 432,050	52,551	12.2%
% of Sales	13.1%	10.9%		

The gross margin percentage for the year ended December 31, 2017 of 13.1% increased as a percentage of sales by 2.2% as compared to the gross margin percentage for the year ended December 31, 2016 of 10.9%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016; and
- a decrease in tooling sales which typically earn low margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

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

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Selling, general & administrative	$ 52,531	$ 47,971	4,560	9.5%
% of Sales	6.0%	4.8%		

SG&A expense for the fourth quarter of 2017 increased by $4.6 million to $52.5 million as compared to $48.0 million for the fourth quarter of 2016. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work; a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives; and higher year-over-year incentive compensation based on the performance of the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Selling, general & administrative	$ 211,533	$ 198,109	13,424	6.8%
% of Sales	5.7%	5.0%		

SG&A expense, before adjustments, for the year ended December 31, 2017 increased by $13.4 million to $211.5 million as compared to $198.1 million for the year ended December 31, 2016. Excluding the unusual and other items recorded in SG&A expense incurred during the year ended December 31, 2017 as explained in Table B under "Adjustments to Net Income", SG&A expense for the year ended December 31, 2017 increased by $11.7 million to $209.8 million from $198.1 million for the comparative period of 2016. The increase can be attributed to approximately $5.0 million in litigation costs related to certain employee related matters in the Company's operating facility in Brazil; increased costs incurred at new and/or expanded facilities launching and ramping up new work; a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives; and higher year-over-year incentive compensation based on the performance of the business.

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

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Depreciation of PP&E (production)	$ 37,673	$ 33,363	4,310	12.9%
Depreciation of PP&E (non-production)	2,596	2,258	338	15.0%
Amortization of customer contracts and relationships	530	597	(67)	(11.2%)
Amortization of development costs	3,246	3,607	(361)	(10.0%)
Total depreciation and amortization	$ 44,045	$ 39,825	4,220	10.6%

Total depreciation and amortization expense for the fourth quarter of 2017 increased by $4.2 million to $44.0 million as compared to $39.8 million for the fourth quarter of 2016. 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.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the fourth quarter of 2016. 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 year-over-over to 4.3% for the fourth quarter of 2017 from 3.4% for the fourth quarter of 2016 due to lower year-over-year sales as previously discussed, and recent investments put into production.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Depreciation of PP&E (production)	$ 140,018	$ 127,617	12,401	9.7%
Depreciation of PP&E (non-production)	9,652	8,727	925	10.6%
Amortization of customer contracts and relationships	2,162	2,307	(145)	(6.3%)
Amortization of development costs	13,237	13,652	(415)	(3.0%)
Total depreciation and amortization	$ 165,069	$ 152,303	12,766	8.4%

Total depreciation and amortization expense for the year ended December 31, 2017 increased by $12.8 million to $165.1 million as compared to $152.3 million for the year ended December 31, 2016. 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 equipment purchases to support new and replacement business. The year-over-year increase in total depreciation and amortization expense was partially offset by lower depreciation and amortization expense recognized at an operating facility in Detroit, Michigan due to certain assets having been impaired during the second quarter of 2016.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 3.8% for the year ended December 31, 2017 compared to 3.2% for the year ended December 31, 2016 due to lower year-over-year sales, as previously discussed, and recent investments put into production.

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

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

TABLE A

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	For the three months ended December 31, 2017 (a)	For the three months ended December 31, 2016 (b)	(a)-(b) Change
NET INCOME (A)	**$32,366**	**$30,753**	**$1,613**
Add Back - Unusual and Other Items:			
Gain on sale of land and building (1)	(13,374)	-	(13,374)
Unrealized gain on derivative instruments (2)	(2,322)	-	(2,322)
Impairment of assets (4)	7,488	-	7,488
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**($8,208)**	**-**	**($8,208)**
Tax impact of above items (6)	(292)	-	(292)
Impact of US tax reforms on deferred tax asset (7)	19,313	-	19,313
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$10,813**	**-**	**$10,813**
ADJUSTED NET INCOME (A + B)	**$43,179**	**$30,753**	**$12,426**
Number of Shares Outstanding – Basic (‘000)	86,593	86,404	
Adjusted Basic Net Earnings Per Share	$0.50	$0.36	
Number of Shares Outstanding – Diluted (‘000)	87,101	86,466	
Adjusted Diluted Net Earnings Per Share	$0.50	$0.36	

TABLE B

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	For the year ended December 31, 2017 (a)	For the year ended December 31, 2016 (b)	(a)-(b) Change
NET INCOME (A)	**$159,543**	**$92,380**	**$67,163**
Add Back - Unusual and Other Items:			
Gain on sale of land and building (1)	(19,072)	-	(19,072)
Unrealized gain on derivative instruments (2)	(3,697)	-	(3,697)
Executive separation agreement (3)	1,767	-	1,767
Impairment of assets (4)	7,488	34,579	(27,091)
Restructuring costs (5)	-	3,684	(3,684)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**($13,514)**	**$38,263**	**($51,777)**
Tax impact of above items (6)	177	(558)	735
Impact of US tax reforms on deferred tax asset (7)	19,313	-	19,313
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$5,976**	**$37,705**	**($31,729)**
ADJUSTED NET INCOME (A + B)	**$165,519**	**$130,085**	**$35,434**
Number of Shares Outstanding – Basic (‘000)	86,527	86,389	
Adjusted Basic Net Earnings Per Share	$1.91	$1.51	
Number of Shares Outstanding – Diluted (‘000)	86,779	86,527	
Adjusted Diluted Net Earnings Per Share	$1.91	$1.50	

(1) Gain on sale of land and building

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

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

(2) Unrealized gain on derivative instruments

In the third quarter of 2017, the Company acquired 5.5 million common shares in NanoXplore Inc. (“NanoXplore”), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering (the investment is further described in note 7 of the consolidated financial statements and later on in this MD&A under the section “Investments”). As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2.75 million common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance. The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period with the change in fair value recorded through profit or loss. As at December 31, 2017, the warrants had a fair value of $4.0 million which resulted in an unrealized gain of $3.7 million for the year ended December 31, 2017, of which $2.3 million was recognized in the fourth quarter, recorded in Other finance income. This unrealized gain has been added back for Adjusted Net Income purposes.

(3) Executive separation agreement

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

(4) Impairment of assets

During the fourth quarter of 2017, in conjunction with the Company's annual business planning cycle, the Company recorded an impairment charge on PP&E of $7.5 million. The impairment charge related to specific equipment at an operating facility in Canada included in the North America operating segment. The equipment is no longer in use and is not expected to be re-deployed.

During the second quarter of 2016, the Company recorded impairment charges on PP&E, intangible assets and inventories totaling $34.6 million (US$26.6 million) 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 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.

(5) Restructuring costs

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's operating facility in Meschede, Germany. In connection with these restructuring activities, $1.8 million (€1.2 million) of employee related severance was recognized during the second quarter of 2016. No further costs related to this restructuring are expected.

Other additions to the restructuring accrual during 2016 totaled $1.9 million (US$1.4 million) and represent employee-related payouts resulting from the closure of the operating facility in Detroit, Michigan as described above.

(6) Tax impact of above items

The tax impact of the adjustments recorded to income in 2017 of $0.3 million reflects a lower tax effect on the gain on sale of land and building and the unrealized gain on derivative instruments due to the capital nature of the gains for tax purposes (capital gains are generally taxed at lower rates).

The tax impact of the adjustments recorded to income during 2016 of $0.6 million represents solely the corresponding tax effect on the $1.8 million in restructuring costs incurred in Meschede, Germany. The $34.6 million in impairment charges and $1.9 million 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 deferred tax assets. In assessing the realization of deferred tax assets at a point in time, 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.

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

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

NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

		Three months ended December 31, 2017		Three months ended December 31, 2016	$ Change	% Change
Net Income	$	32,366	$	30,753	1,613	5.2%
Adjusted Net Income	$	43,179	$	30,753	12,426	40.4%
Net Earnings per Share						
Basic and Diluted	$	0.37	$	0.36		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.50	$	0.36		

Net Income, before adjustments, for the fourth quarter of 2017 increased by $1.6 million to $32.4 million from $30.8 million for the fourth quarter of 2016. Excluding the unusual and other items recognized during the fourth quarter of 2017 as explained in Table A under "Adjustments to Net Income", Net Income for the fourth quarter of 2017 increased to $43.2 million or $0.50 per share, on a basic and diluted basis, from $30.8 million or $0.36 per share, on a basic and diluted basis, for the fourth quarter of 2016.

Adjusted Net Income for the fourth quarter of 2017, as compared to the fourth quarter of 2016, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or a subsequent to the fourth quarter of 2016; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.3% for the fourth quarter of 2017 compared to 24.5% for the fourth quarter of 2016).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A expense as previously discussed; and
- a year-over-year increase in depreciation expense as previously discussed.

Three months ended December 31, 2017 actual to guidance comparison:

On November 14, 2017, the Company provided the following guidance for the fourth quarter of 2017:

		Guidance		Actual
Production sales (in millions)	$	790 - 830	$	810
Adjusted Net Earnings per Share				
Basic and Diluted	$	0.45 - 0.49	$	0.50

For the fourth quarter of 2017, while production sales of $810 million were within the published sales guidance range, Adjusted Net Earnings per Share of $0.50 exceeded the published earnings guidance range due generally to better than expected financial performance at certain operating facilities.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Net Income	$ 159,543	$ 92,380	67,163	72.7%
Adjusted Net Income	$ 165,519	$ 130,085	35,434	27.2%
Net Earnings per Share				
Basic and Diluted	$ 1.84	$ 1.07		
Adjusted Net Earnings per Share				
Basic	$ 1.91	$ 1.51		
Diluted	$ 1.91	$ 1.50		

Net Income, before adjustments, for the year ended December 31, 2017 increased by $67.1 million to $159.5 million from $92.4 million for the year ended December 31, 2016 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the year ended December 31, 2017 and 2016 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the year ended December 31, 2017 increased to $165.5 million or $1.91 per share, on a basic and diluted basis, from $130.1 million or $1.51 per share, on a basic basis, and $1.50 per share, on a diluted basis, for the year ended December 31, 2016.

Adjusted Net Income for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016;
- a net foreign exchange gain of $1.2 million for the year ended December 31, 2017 compared to a net foreign exchange loss of $2.2 million for the year ended December 31, 2016;
- a year-over-year decrease in finance expense on the Company's bank debt and equipment loans; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.4% for the year ended December 31, 2017 compared to 24.4% for the year ended December 31, 2016).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed; and
- an increase in research and development costs due to increased new product and process research and development activity.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Additions to PP&E	$ 83,815	$ 112,721	(28,906)	(25.6%)

Additions to PP&E decreased by $28.9 million to $83.8 million in the fourth quarter of 2017 from $112.7 million in the fourth quarter of 2016 due generally to the timing of expenditures. Additions as a percentage of sales decreased year-over-year to 9.5% from 11.4% in the fourth quarter of 2016. 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.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Additions to PP&E	$ 251,920	$ 249,454	2,466	1.0%

Additions to PP&E increased slightly by $2.5 million year-over-year to $251.9 million for the year ended December 31, 2017 compared to $249.5 million for the year ended December 31, 2016. Additions as a percentage of sales increased year-over-year to 6.8% for the year ended December 31, 2017 from 6.3% for the year ended December 31, 2016. 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 2017 continued to be for manufacturing equipment for new and replacement programs that recently launched or will be launching over the next 24 months.

SEGMENT ANALYSIS

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

Three months ended December 31, 2017 to three months ended December 31, 2016 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended December 31, 2017	Three months ended December 31, 2016	Three months ended December 31, 2017	Three months ended December 31, 2016
North America	$ 674,852	$ 805,487	$ 51,637	$ 35,759
Europe	163,949	150,983	7,496	9,642
Rest of the World	41,904	38,165	2,508	575
Eliminations	(2,063)	(4,228)	-	-
Adjusted Operating Income	-	-	$ 61,641	$ 45,976
Unusual and Other Items*	-	-	5,886	-
Total	$ 878,642	$ 990,407	$ 67,527	$ 45,976

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

North America

Adjusted Operating Income in North America increased by $15.9 million to $51.6 million for the fourth quarter of 2017 from $35.8 million for the fourth quarter of 2016 despite lower sales as previously discussed. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2016; partially offset by operational inefficiencies and other costs at certain other facilities.

Europe

Adjusted Operating Income in Europe decreased by $2.1 million to $7.5 million for the fourth quarter of 2017 from $9.6 million for the fourth quarter of 2016 due in large part to upfront costs incurred in the Company's German operations in preparation of upcoming new programs and related to new business in the process of being launched; partially offset by incremental margin contribution from a year-over-year increase in sales. As noted previously, the year-over-year increase in sales can be attributed to a $6.4 million increase in tooling sales, a $2.5 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2016, and higher overall production volumes in the Company's German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler.

Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year due in large part to higher year-over-year sales. The increase in sales was due to a $4.0 million increase in tooling sales and higher year-over year production sales in the Company's operating facility in Brazil; partially offset by a $1.1 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2016 and lower year-over-year OEM production volumes on the Ford Mondeo/Taurus platforms in China.

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
North America	$ 2,913,786	$ 3,222,660	$ 203,676	$ 165,236
Europe	657,029	636,082	38,388	36,813
Rest of the World	132,067	122,989	(5,257)	(4,342)
Eliminations	(12,383)	(13,324)	-	-
Adjusted Operating Income	-	-	$ 236,807	$ 197,707
Unusual and Other Items*	-	-	9,817	(38,263)
Total	$ 3,690,499	$ 3,968,407	$ 246,624	$ 159,444

** Operating income for the operating segments has been adjusted for unusual and other items. The $9.8 million of unusual and other items for the year ended December 31, 2017 was recognized in North America. Of the $38.3 million of unusual and other items incurred during the year ended December 31, 2016, $36.5 million was incurred in North America and $1.8 million in Europe. 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 $38.4 million to $203.7 million for the year ended December 31, 2017 from $165.2 million for the year ended December 31, 2016. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016; partially offset by operational inefficiencies and other costs at certain facilities.

Europe

Adjusted Operating Income in Europe increased by $1.6 million to $38.4 million for the year ended December 31, 2017 from $36.8 million for the year ended December 31, 2016 due to higher year-over-year sales; partially offset by upfront costs incurred in the Company's German operations in preparation of upcoming new programs and related to new business in the process of being launched. The increase in sales can be attributed to higher production volumes in the Company's German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler, and an $8.0 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately $6.3 million as compared to the comparative period of 2016.

Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year despite higher year-over-year sales. The decrease in operating results was due to approximately $5.0 million in litigation costs related to certain employee-related matters in the Company's operating facility in Brazil, and upfront costs incurred in the Company's China operations in preparation of upcoming new programs; partially offset by incremental margin contribution from the higher year-over-year sales. The increase in sales was mainly due to a year-over-year increase in production sales in the Company's operating facility in Brazil and higher year-over-year production sales in China related to GM's CT6 vehicle platform; partially offset by a $5.1 million decrease in tooling sales and a $0.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the year ended December 31, 2016.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	878,642	838,535	972,772	1,000,550	990,407	914,725	1,023,825	1,039,450
Gross Margin	124,042	113,418	128,926	118,215	104,312	99,698	116,222	111,818
Net Income (loss) for the period	32,366	36,022	47,411	43,467	30,630	28,827	(27)	32,531
Net Income (loss) attributable to equity holders of the Company	32,366	36,229	47,346	43,602	30,753	29,098	(42)	32,571
Adjusted Net Income attributable to equity holders of the Company*	43,179	36,263	47,346	38,731	30,753	29,098	37,663	32,571
Basic and Diluted Net Earnings per Share	0.37	0.42	0.55	0.50	0.36	0.34	-	0.38
Adjusted Basic and Diluted Net Earnings per Share*	0.50	0.42	0.55	0.45	0.36	0.34	0.44	0.38

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with IFRS. However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Please refer to the Company's previously filed annual and interim MD&A of operating results and financial position for the fiscal years 2017 and 2016 for a full reconciliation of IFRS to non-IFRS measures.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid and continues to strengthen, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at December 31, 2017, the Company had total equity attributable to equity holders of the Company of $958.5 million (December 31, 2016 - $830.2 million). As at December 31, 2017, the Company's ratio of current assets to current liabilities was 1.28:1 (December 31, 2016 - 1.26:1). The Company's current working capital level of $226.9 million at December 31, 2017, up from $198.0 million at December 31, 2016 is due in large part to the timing of cash inflows and outflows with tooling related accounts. Credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset backed financing.

CASH FLOWS

	Three months ended December 31, 2017	Three months ended December 31, 2016	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 107,094	$ 87,503	19,591	22.4%
Change in non-cash working capital items	(23,175)	23,108	(46,283)	(200.3%)
	83,919	110,611	(26,692)	(24.1%)
Interest paid	(5,543)	(7,025)	1,482	(21.1%)
Income taxes paid	(12,912)	(9,172)	(3,740)	40.8%
Cash provided by operating activities	65,464	94,414	(28,950)	(30.7%)
Cash used in financing activities	(10,131)	(17,854)	7,723	(43.3%)
Cash used in investing activities	(37,381)	(64,871)	27,490	(42.4%)
Effect of foreign exchange rate changes on cash and cash equivalents	776	(92)	868	(943.5%)
Increase in cash and cash equivalents	$ 18,728	$ 11,597	7,131	61.5%

Cash provided by operating activities during the fourth quarter of 2017 was $65.5 million, compared to cash provided by operating activities of $94.4 million in the corresponding period of 2016. The components for the fourth quarter of 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $107.1 million;
- non-cash working capital items use of cash of $23.2 million comprised of an increase in trade and other receivables of $30.4 million; partially offset by a decrease in inventories of $5.1 million, a decrease in prepaid expenses and deposits of $1.9 million, and a combined increase in trade and other payables and provisions of $0.2 million;
- interest paid (excluding capitalized interest) of $5.5 million; and
- income taxes paid of $12.9 million.

Cash used in financing activities during the fourth quarter of 2017 was $10.1 million, compared to $17.9 million in the corresponding period in 2016, as a result of repayments on the Company’s revolving banking facility and asset backed financing arrangements totalling $49.5 million, and $2.6 million in dividends paid; partially offset by proceeds from a new equipment loan in the amount of $40 million, and $1.9 million in proceeds from the exercise of employee stock options. The $17.9 million in cash used in financing activities during the fourth quarter of 2016 was the result of a $16.0 million net decrease in long-term debt (including repayments on the Company’s revolving banking facility and asset backed financing arrangements), and $2.6 million in dividends paid; partially offset by $0.7 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the fourth quarter of 2017 was $37.4 million, compared to $64.9 million in the corresponding period in 2016. The components for the fourth quarter of 2017 primarily include the following:

- cash additions to PP&E of $67.1 million;
- capitalized development costs relating to upcoming new program launches of $3.6 million; partially offset by
- proceeds from the disposal of PP&E of $2.3 million and proceeds from the sale of land and building of $31.0 million.

The cash used in investing activities of $64.9 million in the fourth quarter of 2016 included $62.0 million in cash additions to PP&E and $3.0 million in capitalized development costs relating to upcoming new program launches; partially offset by $0.1 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of $52.5 million at the beginning of the fourth quarter of 2017, and the activities described above, the cash and cash equivalents balance at December 31, 2017 was $71.2 million.

	Year ended December 31, 2017	Year ended December 31, 2016	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 406,207	$ 348,031	58,176	16.7%
Change in non-cash working capital items	(26,876)	(15,986)	(10,890)	68.1%
	379,331	332,045	47,286	14.2%
Interest paid	(20,304)	(22,361)	2,057	(9.2%)
Income taxes paid	(56,166)	(49,967)	(6,199)	12.4%
Cash provided by operating activities	302,861	259,717	43,144	16.6%
Cash provided by (used) in financing activities	(56,915)	11,713	(68,628)	(585.9%)
Cash used in investing activities	(230,620)	(239,096)	8,476	(3.5%)
Effect of foreign exchange rate changes on cash and cash equivalents	(3,298)	(2,068)	(1,230)	59.5%
Increase in cash and cash equivalents	$ 12,028	$ 30,266	(18,238)	(60.3%)

Cash provided by operating activities during the year ended December 31, 2017 was $302.9 million, compared to $259.7 million in the corresponding period of 2016. The components for the year ended December 31, 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $406.2 million;
- non-cash working capital items use of cash of $26.9 million comprised of a decrease in trade and other receivables of $0.1 million, an increase in prepaid expenses and deposits of $1.3 million and an increase in inventories of $80.5 million; partially offset by a combined increase in trade and other payables and provisions of $55.0 million;
- interest paid (excluding capitalized interest) of $20.3 million; and
- income taxes paid of $56.2 million.

Cash used in financing activities during the year ended December 31, 2017 was $56.9 million, compared to cash provided by financing activities of $11.7 million in the corresponding period in 2016, as a result of repayments on the Company's revolving banking facility and asset backed financing arrangements totalling $88.6 million, and $10.4 million in dividends paid; partially offset by proceeds from a new equipment loan of $40.0 million and $2.1 million in proceeds from the exercise of employee stock options. The $11.7 million in cash provided in financing activities during the year ended December 31, 2016 was the result of a $21.3 million net increase in long-term debt (net of repayments on the Company's revolving banking facility and asset backed financing arrangements) and $0.8 million in proceeds from the exercise of employee stock options; partially offset by $10.4 million in dividends paid.

Cash used in investing activities during the year ended December 31, 2017 was $230.6 million, compared to $239.1 million in the corresponding period in 2016. The components for the year ended December 31, 2017 primarily include the following:

- cash additions to PP&E of $259.6 million;
- capitalized development costs relating to upcoming new program launches of $14.2 million;
- an investment in NanoXplore Inc. (as described in note 7 of the consolidated financial statements for the year ended December 31, 2017) of $2.5 million; partially offset by
- proceeds from the disposal of PP&E of $3.6 million, proceeds from the sale of land and building of $40.9 million, and the upfront recovery of development costs incurred of $1.2 million.

The cash used in investing activities of $239.1 million during the year ended December 31, 2016 included $226.9 million in cash additions to PP&E and $12.6 million in capitalized development costs relating to upcoming new program launches; partially offset by $0.4 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of $59.2 million at the beginning of 2017, and the activities described above, the cash and cash equivalents balance at December 31, 2017 was $71.2 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 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 December 31, 2017, the Company had drawn $233.0 million (December 31, 2016 - $273.0 million) on the Canadian revolving credit line and US$256.0 million (December 31, 2016 - US$270.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) decreased by $79.4 million during 2017 from $662.2 million at December 31, 2016 to $582.8 million at December 31, 2017. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.45x at the end of the fourth quarter of 2017, from 1.89x at the end of 2016.

The Company was in compliance with its debt covenants as at December 31, 2017.

During the fourth quarter of 2017, the Company finalized an equipment loan in the amount of $40 million repayable in monthly installments over five years at a fixed interest rate of 3.80%. The loan agreement was executed on October 2, 2017.

Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends 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, with the most recent quarterly dividend being paid on January 15, 2018. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In view of the Company's financial performance, and its future outlook and cash needs, the Board has decided to increase the annual dividends by 50% to $0.18 per share, to be paid in four quarterly installments of $0.045 per share, commencing with the release of the first quarter results of 2018. 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 December 31, 2017 the amount of off-balance sheet program financing was $75.2 million (December 31, 2016 - $65.5 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.

RISKS AND UNCERTAINTIES

The following risk factors, as well as the other information contained in this MD&A, the Company's Annual Information Form for the year ended December 31, 2017 ("AIF") (of which the section entitled "Automotive Industry General", describing automotive industry trends and highlights, contained in the AIF is incorporated by reference herein) or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

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

North American and Global Economic and Political Conditions

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

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

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

Automotive Industry Risks

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

Dependence Upon Key Customers

Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, reduced sales of automotive platforms of such customers, or shift in market share on vehicles on which we have significant content, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. In addition, a work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers or an extended customer shutdown (scheduled or unscheduled) could have a significant impact on the Company's revenue and/or profitability. Our largest North American customers typically halt production for approximately two weeks in July and one week in December. These typically seasonal shutdowns could cause fluctuations in the Company's quarterly results.

Financial Viability of Suppliers

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

Competition

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

Cost Absorption and Purchase Orders

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

Material Prices

Prices for key raw materials and commodities used in parts production, particularly aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. Martinrea has attempted to mitigate its exposure to price increases of key commodities, particularly steel and aluminum (through participation in steel resale programs or price adjustment mechanisms); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content, by passing commodity price increases to customers or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also impact on production or transportation costs which in turn could affect competitiveness.

Outsourcing and Insourcing Trends

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

Product Warranty, Recall and Liability Risk

Automobile manufacturers are increasingly requesting that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

Product Development and Technological Change

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

Dependence Upon Key Personnel

The success of the Company is dependent on the services of a number of the members of its senior management. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. The loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company does not currently maintain key man insurance.

Limited Financial Resources/Uncertainty of Future Financing/Banking

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

Acquisitions

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

Potential Rationalization Costs and Turnaround Costs

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

Launch and Operational Costs

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

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

Potential Volatility of Share Prices

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

Changes in Laws and Governmental Regulations

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to NAFTA, the CPTPP, or the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States such as increased tariffs or investigations relating to anti-dumping. In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs.

Labour Relations Matters

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

Litigation and Regulatory Compliance and Investigations

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

Currency Risk - Hedging

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

Currency Risk – Competitiveness in Certain Jurisdictions

The appreciation of the Canadian dollar against the U.S. dollar (and other currencies) may negatively affect the competitiveness of the Company's Canadian operations in this respect against the operations in the U.S. and Mexico, as well as other jurisdictions, of competitors and the operations of the Company in those jurisdictions. As a result of a Canadian dollar appreciation the Company may move some existing work to the U.S. or Mexico, or may source work to U.S. or Mexican divisions as opposed to Canadian divisions, in order for the Company to remain or become competitive. Any work shifts may entail significant restructuring and other costs as work is shifted, as Canadian plants are consolidated, downsized or closed, or as plants in the U.S. or Mexico are expanded.

Fluctuations in Operating Results

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

Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

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

Environmental Regulation

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

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

The Company's customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility, which may impact the Company's business and operations.

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

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

A Shift Away from Technologies in Which the Company is Investing

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

Competition with Low Cost Countries

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

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

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

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

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

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

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability.

Potential Tax Exposures

The Company may incur losses in some countries which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax exposures arising out of changes in tax laws, tax reassessments or otherwise. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions that are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain value added tax credits claimed. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 21 to the Company's consolidated financial statements for the year ended December 31, 2017). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability.

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

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

Pension Plans and other post employment benefits

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2017, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2017, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund some amounts in 2018 and beyond. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2017, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2017.

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2017, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2018 and beyond are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post-employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post-employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2017, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2017.

Impairment Charges

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

Cybersecurity Threats

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

Dividends

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

DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 1, 2018, the Company had 86,745,834 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 1, 2018, options to acquire 1,844,450 common shares were outstanding.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

At December 31, 2017, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total
Purchase obligations (i)	412,116	2,007	1,976	31	-	-	416,130
Long-term debt	24,795	11,211	566,296	12,180	39,535	-	654,017
Lease commitments	34,735	32,005	27,139	22,379	18,566	75,365	210,189
Total contractual obligations	471,646	45,223	595,411	34,590	58,101	75,365	1,280,336

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

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2017, the amount of the off balance sheet program financing was $75.2 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.

Hedge Accounting

The Company uses some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments made in certain US operations. At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment that is being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed.

At inception and at every quarter end thereafter, the Company formally assesses the effectiveness of these net investment hedges. The change in fair value of the hedging US debt is recorded, to the extent effective, directly in Other Comprehensive Income (Loss). These amounts will be recognized in earnings as and when the corresponding Accumulated Other Comprehensive Income (Loss) from the hedged foreign operations is recognized in net earnings.

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 December 31, 2017, 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
Sell Canadian Dollars	$	20,000	1.2835	1
Buy Mexican Peso	$	30,468	19.3319	2

The aggregate value of these forward contracts as at December 31, 2017 was a pre-tax loss of $0.1 million and was recorded in trade and other payables (December 31, 2016 - loss of $0.2 million).

INVESTMENTS

During the third quarter of 2017, the Company acquired 5.5 million common shares in NanoXplore Inc., a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2.75 million common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

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

The initial purchase price of $2.5 million was allocated to the common shares and warrants acquired based on their relative fair values at the time of issuance resulting in $2.2 million being initially allocated to the common shares and $0.3 million to the warrants.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes valuation model, with the change in fair value recorded through profit or loss. As at December 31, 2017, the warrants had a fair value of $4.0 million resulting in an unrealized gain of $3.7 million for the year ended December 31, 2017, which is recorded in Other finance income (expense) in the consolidated statement of operations. The table below summarizes the assumptions used in valuing the warrants using the Black-Scholes valuation model as at the acquisition date and December 31, 2017:

	Acquisition	December 31, 2017
Expected volatility	76.29%	76.68%
Risk free interest rate	1.31%	1.68%
Expected life (years)	2	2

The acquired common shares in NanoXplore have been classified as available-for-sale for reporting purposes. As such, the common shares are recorded at their fair value at the end of each reporting period based on publicly quoted prices, with the change in fair value recorded in Other comprehensive income (loss). As at December 31, 2017, the common shares had a fair value of $11.3 million resulting in an unrealized gain of $9.1 million ($8.0 million net of tax) for the year ended December 31, 2017.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of December 31, 2017, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

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

The CEO and CFO have caused an evaluation of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2017. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity's objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting**.**

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Revenue Recognition on Separately Priced Tooling Contracts

Revenue from tooling contracts is recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold. This generally corresponds to when the tool is inspected and accepted by the Customer, which is typically defined as the PPAP (production part approval process or customer acceptance) date. Under tooling contracts, the related sale could be paid in full upon completion of the contract, or in installments.

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

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

Intangible Assets

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

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

Development costs are capitalized when the Company can demonstrate that:

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

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

Research costs, including costs of market research and new product prototyping during the marketing stage, are expensed in the period in which they are incurred.

Impairment of Non-financial Assets

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

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

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

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

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; and (ii) any resulting impairment loss could have a material impact on consolidated net income and on the amount of assets reported on the Company's consolidated balance sheet.

Income Tax Estimates

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

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

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

Employee Future Benefits

The Company provides pensions and other post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Company's annual consolidated financial statements for the year ended December 31, 2017 the most significant of which are the discount rate, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses which are recognized in other comprehensive income as they arise. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

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 to participate, at the sole discretion of the Board of Directors.

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

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

Performance and Restricted Share Unit Plan

On November 3, 2016, as amended on April 28, 2017, a Performance and Restricted Share Unit Plan (the PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interest. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan), at the Company's option, for either common shares or cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

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

Recently adopted accounting standards

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 adopted the amendments to IAS 7 effective January 1, 2017. The adoption of this amended standard resulted in some additional disclosure in note 11 (Long-term debt) of the consolidated financial statements for the year ended December 31, 2017.

Recently issued accounting standards

The IASB issued the following new standards and amendments to existing standards:

IFRS 15, Revenue from Contracts with Customer

In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company has completed its assessment of the impact the adoption of IFRS 15 is expected to have on the consolidated financial statements. As part of the assessment, which included consultation with industry peers, the Company analyzed the standard's impact on customer contracts, compared its historical accounting policies and practices to the requirements of the new standard, and identified potential differences from the application of the new standard's requirements. Based on the worked performed, the Company does not expect that the adoption will have a material impact on its revenues, results of operations or financial position. As required by the standard, the Company expects to make additional disclosure related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has assessed the impact of IFRS 9 on the consolidated financial statements and does not expect it to have a material impact to the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to elect this policy choice. Revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 "Financial Instruments: Disclosures" will be addressed upon adoption on January 1, 2018.

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

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 Company has assessed the impact of the amendments to IFRS 2 on the consolidated financial statements and does not expect it to have a material impact.

Selected Annual Information

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2017, December 31, 2016 and December 31, 2015.

		2017		2016		2015
Sales	$	3,690,499	$	3,968,407	$	3,866,771
Gross Margin		484,601		432,050		402,232
Operating Income		246,624		159,444		161,761
Net Income for the period		159,266		91,961		107,173
Net Income Attributable to Equity Holders of the Company	$	159,543	$	92,380	$	107,030
Net Earnings per Share - Basic	$	1.84	$	1.07	$	1.25
Net Earnings per Share - Diluted	$	1.84	$	1.07	$	1.24
Non-IFRS Measures*						
Adjusted Operating Income	$	236,807	$	197,707	$	178,870
% of Sales		6.4%		5.0%		4.6%
Adjusted EBITDA		401,493		350,357		317,750
% of Sales		10.9%		8.8%		8.2%
Adjusted Net Income Attributable to Equity Holders of the Company	$	165,519	$	130,085	$	118,788
Adjusted Net Earnings per Share - Basic	$	1.91	$	1.51	$	1.38
Adjusted Net Earnings per Share - Diluted	$	1.91	$	1.50	$	1.38
Total Assets	$	2,541,173	$	2,468,494	$	2,463,928
Cash and Cash Equivalents	$	71,193	$	59,165	$	28,899
Long-term Debt	$	654,017	$	721,403	$	717,012
Dividends Declared	$	10,388	$	10,366	$	10,336

The year-over-year trends in the selected information above have been discussed previously in this MD&A, as well as the MD&A from December 31, 2016, including the unusual items in Table B under "Adjustments to Net Income".

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Refer to page 2 and 3 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2017 and 2016 and the Company's MD&A for the year ended December 31, 2016, as previously filed and available at www.sedar.com , for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2015.

FORWARD-LOOKING INFORMATION

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to the growth of the Company and pursuit of its strategies, the ramping up and launching of new programs, investments in its business, the opportunity to increase sales, the future amount and type of restructuring expenses to be expensed (including the expectation as to no further restructuring costs from the Honsel acquisition), the financing of future capital expenditures, the Company's views of 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, growth of future sales or production volumes 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, 2017 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;
- cyber security threats; and
- dividends.

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

MARTINREA INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

Martinrea International Inc.

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MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management’s judgment. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2017 is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, for overseeing management’s performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, multiple times a year to review among other things accounting policies, observations, if any, relating to internal controls over the financial reporting process that may be identified during the audit process, as influenced by the nature, timing and extent of audit procedures performed, annual financial statements, the results of the external audit examination and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2017. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) *“Pat D’Eramo”*

Pat D’Eramo

President & Chief Executive Officer

(Signed) *“Fred Di Tosto”*

Fred Di Tosto

Chief Financial Officer

KPMG LLP
Chartered Public Accountants
100 New Park Place, Suite 1400
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Martinrea International Inc.

We have audited the accompanying consolidated financial statements of Martinrea International Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Martinrea International Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 1, 2018
Toronto, Canada

Martinrea International Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note		December 31, 2017		December 31, 2016
ASSETS					
Cash and cash equivalents		$	71,193	$	59,165
Trade and other receivables	3		556,049		568,445
Inventories	4		376,972		306,130
Prepaid expenses and deposits			15,504		14,758
Income taxes recoverable			12,979		9,786
TOTAL CURRENT ASSETS			1,032,697		958,284
Property, plant and equipment	5		1,282,624		1,257,247
Deferred income tax assets	13		142,173		179,702
Intangible assets	6		68,414		73,261
Other assets	7		15,265		-
TOTAL NON-CURRENT ASSETS			1,508,476		1,510,210
TOTAL ASSETS		$	2,541,173	$	2,468,494
LIABILITIES					
Trade and other payables	9	$	741,549	$	707,007
Provisions	10		5,048		6,689
Income taxes payable			34,429		18,622
Current portion of long-term debt	11		24,795		27,982
TOTAL CURRENT LIABILITIES			805,821		760,300
Long-term debt	11		629,222		693,421
Pension and other post-retirement benefits	12		65,258		66,863
Deferred income tax liabilities	13		82,373		118,234
TOTAL NON-CURRENT LIABILITIES			776,853		878,518
TOTAL LIABILITIES			1,582,674		1,638,818
EQUITY					
Capital stock	14		713,425		710,510
Contributed surplus			41,981		42,660
Accumulated other comprehensive income			94,268		117,048
Retained earnings (accumulated deficit)			108,825		(40,020)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			958,499		830,198
Non-controlling interest			-		(522)
TOTAL EQUITY			958,499		829,676
TOTAL LIABILITIES AND EQUITY		$	2,541,173	$	2,468,494

Commitments and Contingencies (note 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

“Robert Wildeboer” Director

“Scott Balfour” Director

Martinrea International Inc.

Consolidated Statements of Operations

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

	Note	Year ended December 31, 2017	Year ended December 31, 2016
SALES		$ 3,690,499	$ 3,968,407
Cost of sales (excluding depreciation of property, plant and equipment)		(3,065,880)	(3,408,740)
Depreciation of property, plant and equipment (production)		(140,018)	(127,617)
Total cost of sales		(3,205,898)	(3,536,357)
GROSS MARGIN		484,601	432,050
Research and development costs	16	(26,597)	(24,853)
Selling, general and administrative		(211,533)	(198,109)
Depreciation of property, plant and equipment (non-production)		(9,652)	(8,727)
Amortization of customer contracts and relationships		(2,162)	(2,307)
Impairment of assets	8	(7,488)	(34,579)
Gain on sale of land and building	5	19,072	-
Gain (loss) on disposal of property, plant and equipment		383	(347)
Restructuring costs	10	-	(3,684)
OPERATING INCOME		246,624	159,444
Finance expense	18	(22,527)	(24,196)
Other finance income (expense)	18	5,139	(1,909)
INCOME BEFORE INCOME TAXES		229,236	133,339
Income tax expense	13	(69,970)	(41,378)
NET INCOME FOR THE PERIOD		$ 159,266	$ 91,961
Non-controlling interest		277	419
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$ 159,543	$ 92,380
Basic earnings per share	15	$ 1.84	$ 1.07
Diluted earnings per share	15	$ 1.84	$ 1.07

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
NET INCOME FOR THE PERIOD	$ 159,266	$ 91,961
Other comprehensive income (loss), net of tax:		
Items that may be reclassified to net income		
Foreign currency translation differences for foreign operations	(30,737)	(30,394)
Change in fair value of available for sale investments	7,957	-
Items that will not be reclassified to net income		
Remeasurement of defined benefit plans	1,539	1,123
Other comprehensive income (loss), net of tax	(21,241)	(29,271)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 138,025	$ 62,690
Attributable to:		
Equity holders of the Company	138,302	63,109
Non-controlling interest	(277)	(419)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 138,025	$ 62,690

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Equity attributable to equity holders of the Company						
	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings/ (accumulated deficit)	Total	Non-controlling interest	Total equity
BALANCE AT DECEMBER 31, 2015	$ 709,396	$ 42,648	$ 147,442	$ (123,157)	$ 776,329	$ (103)	$ 776,226
Net income for the period	-	-	-	92,380	92,380	(419)	91,961
Compensation expense related to stock options	-	333	-	-	333	-	333
Dividends ($0.12 per share)	-	-	-	(10,366)	(10,366)	-	(10,366)
Exercise of employee stock options	1,114	(321)	-	-	793	-	793
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,123	1,123	-	1,123
Foreign currency translation differences	-	-	(30,394)	-	(30,394)	-	(30,394)
BALANCE AT DECEMBER 31, 2016	710,510	42,660	117,048	(40,020)	830,198	(522)	829,676
Net income for the period	-	-	-	159,543	159,543	(277)	159,266
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	123	-	-	123	-	123
Dividends ($0.12 per share)	-	-	-	(10,388)	(10,388)	-	(10,388)
Exercise of employee stock options	2,915	(802)	-	-	2,113	-	2,113
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,539	1,539	-	1,539
Foreign currency translation differences	-	-	(30,737)	-	(30,737)	-	(30,737)
Change in fair value of available for sale investments	-	-	7,957	-	7,957	-	7,957
BALANCE AT DECEMBER 31, 2017	$ 713,425	$ 41,981	$ 94,268	$ 108,825	$ 958,499	$ -	$ 958,499

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net Income for the period	$ 159,266	$ 91,961
Adjustments for:		
Depreciation of property, plant and equipment	149,670	136,344
Amortization of customer contracts and relationships	2,162	2,307
Amortization of development costs	13,237	13,652
Impairment of assets (note 8)	7,488	34,579
Unrealized losses on foreign exchange forward contracts	146	208
Unrealized gain on derivative instruments (note 7)	(3,697)	-
Finance expense	22,527	24,196
Income tax expense	69,970	41,378
Gain on sale of land and building (note 5)	(19,072)	-
Loss (gain) on disposal of property, plant and equipment	(383)	347
Deferred and restricted share units expense	2,751	568
Stock options expense	123	333
Pension and other post-retirement benefits expense	4,487	4,274
Contributions made to pension and other post-retirement benefits	(2,468)	(2,116)
	406,207	348,031
Changes in non-cash working capital items:		
Trade and other receivables	(77)	(4,537)
Inventories	(80,483)	29,923
Prepaid expenses and deposits	(1,344)	(1,038)
Trade, other payables and provisions	55,028	(40,334)
	379,331	332,045
Interest paid (excluding capitalized interest)	(20,304)	(22,361)
Income taxes paid	(56,166)	(49,967)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 302,861	$ 259,717
FINANCING ACTIVITIES:		
Increase in long-term debt	40,000	90,784
Repayment of long-term debt	(88,648)	(69,499)
Dividends paid	(10,380)	(10,365)
Exercise of employee stock options	2,113	793
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ (56,915)	$ 11,713
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment*	(259,600)	(226,910)
Capitalized development costs	(14,211)	(12,624)
Investment in NanoXplore Inc. (note 7)	(2,475)	-
Proceeds on disposal of land and building (note 5)	40,910	-
Proceeds on disposal of property, plant and equipment	3,586	438
Upfront recovery of development costs incurred	1,170	-
NET CASH USED IN INVESTING ACTIVITIES	$ (230,620)	$ (239,096)
Effect of foreign exchange rate changes on cash and cash equivalents	(3,298)	(2,068)
INCREASE IN CASH AND CASH EQUIVALENTS	12,028	30,266
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	59,165	28,899
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 71,193	$ 59,165

*As at December 31, 2017, $63,877 (December 31, 2016, $71,557) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the consolidated financial statements.

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

1. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated financial statements of the Company for the year ended December 31, 2017 were approved by the Board of Directors on March 1, 2018.

(b) Presentation currency

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

(c) Use of estimates and judgements

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

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

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

- Estimates of the economic life of property, plant and equipment and intangible assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately priced tooling contracts: Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total

contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

(i) Foreign currency transactions

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

(ii) Translation of financial statements of foreign operations

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

Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial assets at fair value through profit or loss:
Financial assets are designated at fair value through profit or loss if the Company manages such asset and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents.

Cash and cash equivalents comprise cash balances and highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

Available-for-sale financial assets:
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and included in Other Assets. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: long-term debt and trade and other payables.

The Company initially recognizes debt and subordinated liabilities at fair value on the date that they are originated plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Trade and other payables are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument and subsequently at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments

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

(iv) Hedge Accounting

The Company uses some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments made in certain US operations. At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment that is being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed.

At inception and at every quarter end thereafter, the Company formally assesses the effectiveness of these net investment hedges. The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income. These amounts will be recognized in earnings as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net earnings.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Land is not depreciated.

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

(e) Intangible assets

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

(i) Customer contracts and relationships:

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

(ii) Research and development:

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

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

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

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

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of the net realizable value.

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

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

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

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

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

(h) Pensions and other post-retirement benefits

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

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

(i) Provisions

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

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

(j) Revenue recognition

Sales primarily include sales of finished goods and tooling. Sales of finished goods and tooling are recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer, retains neither continuing managerial involvement nor effective control over the goods sold, and meets other revenue recognition criteria in accordance with IFRS. This generally corresponds to when the goods are shipped or, in the case of the sale of tooling, when the tool has been inspected and accepted by the customer.

(k) Finance income and finance expense

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense is comprised of interest expense on long-term debt, amortization of deferred financing costs, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

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

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

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

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

(m) Guarantees

The Company accounts for guarantees in accordance with IAS 39, *Financial Instruments, Recognition and Measurement* ("IAS 39"). A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Under IAS 39, guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are remeasured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and (ii) the amount initially recognized less cumulative amortization.

(n) Share-based payments

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

(o) Earnings per share

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

(p) Segment reporting

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

(q) Deferred Share Unit Plan

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

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

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

(r) Performance and Restricted Share Unit Plan

On November 3, 2016, as amended on April 28, 2017, a Performance and Restricted Share Unit Plan (the "PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interests. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan), at the Company's option, for either common shares or cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

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

(s) Recently adopted accounting standards

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 adopted the amendments to IAS 7 effective January 1, 2017. The adoption of this amended standard resulted in some additional disclosure in note 11 (Long-term debt) of the consolidated financial statements for the year ended December 31, 2017.

(t) Recently issued accounting standards

The IASB issued the following new standards and amendments to existing standards:

IFRS 15, Revenue from Contracts with Customer

In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company has completed its assessment of the impact the adoption of IFRS 15 is expected to have on the consolidated financial statements. As part of the assessment, which included consultation with industry peers, the Company analyzed the standard’s impact on customer contracts, compared its historical accounting policies and practices to the requirements of the new standard, and identified potential differences from the application of the new standard’s requirements. Based on the work performed, the Company does not expect that the adoption will have a material impact on its revenues, results of operations or financial position. As required by the standard, the Company expects to make additional disclosure related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has assessed the impact of IFRS 9 on the consolidated financial statements and does not expect it to have a material impact to the consolidated financial statements. IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to elect this policy choice. Revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 Financial Instruments: Disclosures will be addressed upon adoption on January 1, 2018.

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

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

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 Company has assessed the impact of the amendments to IFRS 2 on the consolidated financial statements and does not expect it to have a material impact.

3. TRADE AND OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
Trade receivables	$ 538,830	$ 555,074
Other receivables	17,219	13,371
	$ 556,049	$ 568,445

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

4. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	$ 154,293	$ 146,802
Work in progress	38,618	38,323
Finished goods	34,962	39,088
Tooling work in progress and other inventory	149,099	81,917
	$ 376,972	$ 306,130

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2017			December 31, 2016		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 118,154	$ (17,157)	$ 100,997	$ 161,438	$ (41,389)	$ 120,049
Leasehold improvements	62,100	(35,897)	26,203	58,303	(33,316)	24,987
Manufacturing equipment	1,758,415	(909,065)	849,350	1,684,395	(876,359)	808,036
Tooling and fixtures	38,509	(31,034)	7,475	42,806	(34,387)	8,419
Other assets	53,197	(24,793)	28,404	40,795	(23,038)	17,757
Construction in progress and spare parts	270,195	-	270,195	277,999	-	277,999
	$ 2,300,570	$ (1,017,946)	$ 1,282,624	$ 2,265,736	$ (1,008,489)	$ 1,257,247

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

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, 2015	$ 113,323	$ 24,604	$ 780,750	$ 5,743	$ 17,936	$ 259,806	$ 1,202,162
Additions	-	221	7,083	18	304	241,828	249,454
Disposals	(4)	-	(512)	-	(62)	(207)	(785)
Depreciation	(4,038)	(4,510)	(121,976)	(1,604)	(4,216)	-	(136,344)
Impairment (note 8)	-	(723)	(21,021)	-	(26)	-	(21,770)
Transfers from construction in progress and spare parts	13,005	6,131	188,457	4,310	4,417	(216,320)	-
Foreign currency translation adjustment	(2,237)	(736)	(24,745)	(48)	(596)	(7,108)	(35,470)
Net as of December 31, 2016	120,049	24,987	808,036	8,419	17,757	277,999	1,257,247
Additions	-	802	565	-	242	250,311	251,920
Disposals	(22,497)	(311)	(2,024)	-	(209)	-	(25,041)
Depreciation	(4,068)	(4,173)	(134,515)	(1,435)	(5,479)	-	(149,670)
Impairment (note 8)	-	-	(7,488)	-	-	-	(7,488)
Transfers from construction in progress and spare parts	12,537	5,272	213,526	987	16,583	(248,905)	-
Foreign currency translation adjustment	(5,024)	(374)	(28,750)	(496)	(490)	(9,210)	(44,344)
Net as of December 31, 2017	$ 100,997	$ 26,203	$ 849,350	$ 7,475	$ 28,404	$ 270,195	$ 1,282,624

The Company has entered into certain asset-backed financing arrangements that were structured as sales-leaseback transactions. At December 31, 2017, the carrying value of property, plant and equipment under such arrangements was $21,001 (December 31, 2016 – $25,632). The corresponding amounts owing are reflected within long-term debt (note 11).

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

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

6. INTANGIBLE ASSETS

	December 31, 2017			December 31, 2016		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 61,432	$ (55,512)	$ 5,920	$ 62,044	$ (53,872)	$ 8,172
Development costs	143,325	(80,831)	62,494	138,416	(73,327)	65,089
	$ 204,757	$ (136,343)	$ 68,414	$ 200,460	$ (127,199)	$ 73,261

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

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2015	$ 10,773	$ 72,817	$ 83,590
Additions	-	12,624	12,624
Amortization	(2,307)	(13,652)	(15,959)
Impairment (note 8)	-	(4,179)	(4,179)
Foreign currency translation adjustment	(294)	(2,521)	(2,815)
Net as of December 31, 2016	8,172	65,089	73,261
Additions	-	14,211	14,211
Amortization	(2,162)	(13,237)	(15,399)
Upfront recovery of development costs incurred	-	(1,170)	(1,170)
Foreign currency translation adjustment	(90)	(2,399)	(2,489)
Net as of December 31, 2017	$ 5,920	$ 62,494	$ 68,414

7. OTHER ASSETS

	December 31, 2017	December 31, 2016
Investment in common shares of NanoXplore Inc.	$ 11,275	$ -
Warrants in NanoXplore Inc.	3,990	-
	$ 15,265	$ -

Investment in NanoXplore Inc.

In the third quarter of 2017, the Company acquired 5.5 million common shares in NanoXplore Inc. (“NanoXplore”), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2,475 through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2.75 million common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

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

The initial purchase price of $2,475 was allocated to the common shares and warrants acquired based on their relative fair values at the time of issuance resulting in $2,182 being initially allocated to the common shares and $293 to the warrants.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes valuation model, with the change in fair value recorded through profit or loss. As at December 31, 2017, the warrants had a fair value of $3,990 resulting in an unrealized gain of $3,697 for the year ended December 31, 2017, which is recorded in Other finance income (expense) in the consolidated statement of operations. The table below summarizes the assumptions used in valuing the warrants using the Black-Scholes valuation model as at the acquisition date and December 31, 2017:

	Acquisition	December 31, 2017
Expected volatility	76.29%	76.68%
Risk free interest rate	1.31%	1.68%
Expected life (years)	2	2

The acquired common shares in NanoXplore have been classified as available-for-sale for reporting purposes. As such, the common shares are recorded at their fair value at the end of each reporting period based on publicly quoted prices, with the change in fair value recorded in other comprehensive income. As at December 31, 2017, the common shares had a fair value of $11,275 resulting in an unrealized gain of $9,093 ($7,957 net of tax) for the year ended December 31, 2017.

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

8. IMPAIRMENT OF ASSETS

	Year ended December 31, 2017	Year ended December 31, 2016
Property, plant and equipment	$ 7,488	$ 21,770
Intangible assets - Development costs	-	4,179
Inventories	-	8,630
Total impairment	$ 7,488	$ 34,579

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

During the second quarter of 2016, the Company recorded impairment charges on property, plant, equipment, intangible assets and inventories totaling $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 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.

9. TRADE AND OTHER PAYABLES

	December 31, 2017	December 31, 2016
Trade accounts payable and accrued liabilities	$ 741,403	$ 706,799
Foreign exchange forward contracts (note 20(d))	146	208
	$ 741,549	$ 707,007

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

10. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Total
Net as of December 31, 2015	$ 14,026	$ 1,572	$ 15,598
Net additions	3,684	189	3,873
Amounts used during the period	(12,118)	(512)	(12,630)
Foreign currency translation adjustment	(344)	192	(152)
Net as of December 31, 2016	5,248	1,441	6,689
Net additions	-	5,840	5,840
Amounts used during the period	(4,060)	(2,979)	(7,039)
Foreign currency translation adjustment	(72)	(370)	(442)
Net as of December 31, 2017	$ 1,116	$ 3,932	$ 5,048

Based on estimated cash outflows, all provisions as at December 31, 2017 and December 31, 2016 are presented on the consolidated balance sheets as current liabilities.

(a) Restructuring

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated. The restructuring accrual as at December 31, 2015 relates to restructuring activities undertaken in Martinrea Honsel for employee related severance. Additional restructuring costs for Martinrea Honsel in Meschede, Germany of $1,810 (€1,238) were incurred during 2016. No further costs related to this restructuring are expected.

Other additions to the restructuring accrual during 2016 totaled $1,874 (US$1,441) and represent employee-related payouts resulting from the closure of the operating facility in Detroit, Michigan as described in note 8.

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

(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.

The increase in claims and litigation provision for the year ended December 31, 2017 predominately related to certain employee-related matters in the Company's operating facility in Brazil.

11. LONG-TERM DEBT

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

	December 31, 2017	December 31, 2016
Banking facility	$ 551,656	$ 631,879
Equipment loans	102,361	89,524
	654,017	721,403
Current portion	(24,795)	(27,982)
	$ 629,222	$ 693,421

Terms and conditions of outstanding loans, as at December 31, 2017, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2017 Carrying amount	December 31, 2016 Carrying amount
Banking facility	USD	LIBOR+1.75%	2020	$ 321,152	$ 362,529
	CAD	BA+1.75%	2020	230,504	269,350
Equipment loans	CAD	3.80%	2022	38,785	-
	EUR	2.54%	2025	15,561	14,648
	EUR	3.06%	2024	15,210	15,337
	EUR	4.93%	2023	15,131	14,370
	USD	4.25%	2018	8,917	23,532
	EUR	4.34%	2025	3,230	3,041
	EUR	3.35%	2019	2,504	3,797
	EUR	1.36%	2021	2,100	2,548
	USD	3.80%	2022	413	527
	EUR	0.26%	2025	375	353
	BRL	5.00%	2020	135	200
	USD	7.36%	2017	-	6,195
	USD	4.25%	2017	-	3,872
	EUR	3.37%	2017	-	904
	USD	3.99%	2017	-	200
				$ 654,017	$ 721,403

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.

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

As at December 31, 2017, the Company has drawn US$256,000 (December 31, 2016 - US$270,000) on the U.S. revolving credit line and $233,000 (December 31, 2016 - $273,000) on the Canadian revolving credit line. At December 31, 2017, the weighted average effective rate of the banking facility credit lines was 2.9% (December 31, 2016 - 2.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2017.

Deferred financing fees of $2,827 (December 31, 2016 - $4,194) have been netted against the carrying amount of the long-term debt.

During the quarter ended December 31, 2017, the Company finalized an equipment loan in the amount of $40,000 repayable in monthly installments over five years at a fixed interest rate of 3.80%. The agreement was executed on October 2, 2017.

Future annual minimum principal repayments are as follows:

Within one year	$	24,795
One to two years		11,211
Two to three years		566,296
Three to four years		12,180
Thereafter		39,535
	$	654,017

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2015	$	717,012
Draw downs and loan proceeds (net of capitalized deferred financing fees of $2,370)		90,784
Repayments		(69,499)
Amortization of deferred financing fees		1,169
Foreign currency translation adjustment		(18,063)
Net as of December 31, 2016	$	721,403
Equipment loan proceeds		40,000
Repayments		(88,648)
Amortization of deferred financing fees		1,368
Foreign currency translation adjustment		(20,106)
Net as of December 31, 2017	$	654,017

12. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

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

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

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

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

- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

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

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;
- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

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

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

Accrued benefit obligation:

	Other post-retirement benefits	Pensions	December 31, 2017	Other post-retirement benefits	Pensions	December 31, 2016
Balance, beginning of the year	$ (48,111)	$ (64,551)	$ (112,662)	$ (48,744)	$ (63,053)	$ (111,797)
Benefits paid by the plan	1,619	1,946	3,565	1,772	3,132	4,904
Current service costs	(121)	(1,936)	(2,057)	(122)	(1,801)	(1,923)
Interest costs	(1,791)	(2,339)	(4,130)	(1,869)	(2,415)	(4,284)
Actuarial gains (losses) - experience	1,992	(35)	1,957	299	182	481
Actuarial gains (losses) - demographic assumptions	2,871	239	3,110	413	544	957
Actuarial gains (losses) - financial assumptions	(2,592)	(4,304)	(6,896)	(848)	(2,393)	(3,241)
Settlements	-	11	11	276	-	276
Foreign exchange translation	1,512	1,423	2,935	712	1,253	1,965
Balance, end of year	$ (44,621)	$ (69,546)	$ (114,167)	$ (48,111)	$ (64,551)	$ (112,662)

Plan Assets:

	Other post-retirement benefits	Pensions	December 31, 2017	Other post-retirement benefits	Pensions	December 31, 2016
Fair value, beginning of the year	$ -	$ 45,799	$ 45,799	$ -	$ 44,245	$ 44,245
Contributions paid into the plans	1,619	849	2,468	1,772	344	2,116
Benefits paid by the plans	(1,619)	(1,946)	(3,565)	(1,772)	(3,132)	(4,904)
Interest income	-	1,736	1,736	-	1,746	1,746
Administrative costs	-	(36)	(36)	-	(89)	(89)
Remeasurements, return on plan assets recognized in other comprehensive income	-	3,875	3,875	-	3,318	3,318
Foreign exchange translation	-	(1,368)	(1,368)	-	(633)	(633)
Fair value, end of year	$ -	$ 48,909	$ 48,909	$ -	$ 45,799	$ 45,799
Accrued benefit liability, end of year	**(44,621)**	**(20,637)**	**(65,258)**	**(48,111)**	**(18,752)**	**(66,863)**

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

Pension benefit expense recognized in net income:

	Other post-retirement benefits	Pensions	Year ended December 31, 2017	Other post-retirement benefits	Pensions	Year ended December 31, 2016
Current service costs	$ 121	$ 1,936	$ 2,057	$ 122	$ 1,801	$ 1,923
Net interest cost	1,791	603	2,394	1,869	669	2,538
Administrative costs	-	36	36	-	89	89
Curtailment/settlements	-	-	-	(276)	-	(276)
Net benefit plan expense	$ 1,912	$ 2,575	$ 4,487	$ 1,715	$ 2,559	$ 4,274

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

	Year ended December 31, 2017	Year ended December 31, 2016
Actuarial gains (losses)	$ 2,046	$ 1,515

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

Description	December 31, 2017	December 31, 2016
Equity	82.9%	86.3%
Debt securities	17.1%	13.7%
	100.0%	100.0%

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

	Year ended December 31, 2017				Year ended December 31, 2016			
	Canada	USA	Germany	Total	Canada	USA	Germany	Total
Present value of funded obligations	$ (30,698)	$ (28,636)	$ -	$ (59,334)	$ (27,083)	$ (28,717)	$ -	$ (55,800)
Fair value of plan assets	27,464	21,446	-	48,910	24,842	20,957	-	45,799
Funding status of funded obligations	(3,234)	(7,190)	-	(10,424)	(2,241)	(7,760)	-	(10,001)
Present value of unfunded obligations	(26,212)	(20,195)	(8,427)	(54,834)	(27,008)	(22,933)	(6,921)	(56,862)
Total funded status of obligations	$ (29,446)	$ (27,385)	$ (8,427)	$ (65,258)	$ (29,249)	$ (30,693)	$ (6,921)	$ (66,863)

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

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

Weighted average actuarial assumptions

	December 31, 2017	December 31, 2016
Defined benefit pension plans		
Discount rate used to calculate year end benefit obligation	3.3%	3.7%
Mortality table	CPM - RPP 2014 Priv	CPM - RPP 2014 Priv
Other post-employment benefit plans		
Discount rate to calculate year end benefit obligation	3.4%	3.9%
Mortality table	CPM - RPP 2014 Priv & Blue collar w/MP	CPM - RPP 2014 Priv & Blue collar w/MP
Health care trend rates		
Initial healthcare rate	5.9%	6.5%
Ultimate healthcare rate	4.5%	4.8%

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

Sensitivity of Key Assumptions

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

		Impact on defined benefit obligation		**Impact on defined benefit obligation**	
		December 31, 2017		**December 31, 2016**	
Pension Plans	Change in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.5%	Increase by 8.5%	Decrease by 7.7%	Increase by 8.6%
Life Expectancy	1 Year	Increase by 3.1%	Decrease by 3.19%	Increase by 3.10%	Decrease by 3.25%
Other post-retirement benefits					
Discount rate	0.50%	Decrease by 6.4%	Increase by 7.2%	Decrease by 6.3%	Increase by 7.1%
Medical costs	1 Year	Increase by 11.1%	Decrease by 9.2%	Increase by 12.0%	Decrease by 9.9%

13. INCOME TAXES

The components of income tax expense are as follows:

		Year ended December 31, 2017		**Year ended December 31, 2016**
Current income tax expense	$	(73,316)	$	(42,572)
Deferred income tax recovery		3,346		1,194
Total income tax expense	$	(69,970)	$	(41,378)

Taxes on items recognized in other comprehensive income or directly in equity in 2017 and 2016 were as follows:

Deferred tax charge on:		**Year ended December 31, 2017**		**Year ended December 31, 2016**
Employee benefit plan actuarial losses	$	(533)	$	(392)
US tax reform impact on employee benefit plans	$	(1,216)	$	-
Cumulative translation adjustments		(257)		(2,080)
	$	(2,006)	$	(2,472)

Reconciliation of effective tax rate

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

		Year ended December 31, 2017		**Year ended December 31, 2016**
Income before income taxes	$	229,236	$	133,339
Tax at Statutory income tax rate of 26.5% (2016 - 26.5%)		60,748		35,335
Increase (decrease) in income taxes resulting from:				
Impact of US tax reforms		19,313		-
Utilization of losses previously not benefited		(4,861)		-
Tax audit settlements and changes in estimates		(986)		(2,455)
Revaluation due to foreign exchange and inflation		1,403		2,971
Rate differences and deductions allowed in foreign jurisdictions		(1,812)		(3,340)
Current year tax losses not benefited and withholding tax expensed		6,085		8,008
Recognition of previously unrecognized deferred tax assets		(12,758)		(1,099)
Stock-based compensation and other non-deductible expenses		2,838		1,958
	$	69,970	$	41,378
Effective income tax rate applicable to income before income taxes		30.5%		31.0%

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

The movement of deferred tax assets is summarized below:

	Losses	Employee benefits	Interest and accruals	PPE and intangible assets	Other	Total
December 31, 2015	$ 125,635	$ 20,675	$ 13,583	$ 17,067	$ 5,272	$ 182,232
Benefit (charge) to income	(8,374)	198	11,739	(2,039)	1,594	3,118
Benefit (charge) to other comprehensive income	-	(392)	-	-	171	(221)
Translation and other	(3,865)	(420)	(190)	(912)	(40)	(5,427)
December 31, 2016	113,396	20,061	25,132	14,116	6,997	179,702
Benefit (charge) to income	(18,389)	(1,732)	(5,419)	(2,387)	156	(27,771)
Charge to other comprehensive income	-	(1,749)	-	-	(74)	(1,823)
Translation and other	(6,523)	(583)	(1,339)	801	(291)	(7,935)
December 31, 2017	$ 88,484	$ 15,997	$ 18,374	$ 12,530	$ 6,788	$ 142,173

The movement of deferred tax liabilities is summarized below:

	PPE and intangible assets	Other	Total
December 31, 2015	$ (108,800)	$ (5,771)	$ (114,571)
Benefit (charge) to income	(2,477)	553	(1,924)
Charge to other comprehensive income	-	(2,251)	(2,251)
Translation and other	499	13	512
December 31, 2016	(110,778)	(7,456)	(118,234)
Benefit to income	29,917	1,200	31,117
Charge to other comprehensive income	-	(184)	(184)
Translation and other	5,179	(251)	4,928
December 31, 2017	$ (75,682)	$ (6,691)	$ (82,373)

Net deferred asset at December 31, 2016	$ 61,468
Net deferred asset at December 31, 2017	$ 59,800

The Company has accumulated approximately $527,749 (December 31, 2016 - $580,792) in non-capital losses that are available to reduce taxable income in future years. If unused these losses will expire as follows:

Year	
2018-2020	$ 4,153
2021-2025	873
2026-2037	477,074
Indefinite	45,649
	$ 527,749

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

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

A deferred tax asset of $60,369 in the United States (December 31, 2016 - $72,746) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently, it has been recognized.

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

At December 31, 2017, deferred tax assets have not been recognized in respect of the following items:

	2017	2016
Tax losses in foreign jurisdictions	$ 43,857	$ 98,202
Deductible temporary differences in foreign jurisdictions	3,961	1,575
Other capital items	188	188
	$ 48,006	$ 99,965

Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately $612,983 at December 31, 2017 (December 31, 2016 - $518,388).

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

14. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance, December 31, 2015	86,374,667	$ 709,396
Exercise of stock options	110,000	1,114
Balance, December 31, 2016	86,484,667	$ 710,510
Exercise of stock options	261,167	2,915
Balance, December 31, 2017	86,745,834	$ 713,425

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:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,010,617	$ 11.38	4,340,617	$ 12.38
Exercised during the period	(261,167)	8.09	(110,000)	7.21
Cancelled during the period	(905,000)	14.91	(1,220,000)	15.31
Balance, end of period	1,844,450	$ 10.12	3,010,617	$ 11.38
Options exercisable, end of period	1,844,450	$ 10.12	2,885,617	$ 11.36

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

The following is a summary of the issued and outstanding common share purchase options as at December 31, 2017:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$6.00 - 8.99	688,701	2008 - 2012	2018 - 2022
$9.00 - 9.99	50,000	2008	2018
$10.00 - 15.99	1,105,749	2008 - 2015	2018 - 2025
Total share purchase options	1,844,450		

For the year ended December 31, 2017, the Company expensed $123 (2016 - $333), to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

Deferred Share Unit Plan

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

	Year ended December 31, 2017	Year ended December 31, 2016
Units outstanding, beginning of period	67,837	-
Units granted during the period	54,588	67,623
Units settled during the period	-	-
Units for dividends earned during the period (issued twice a year)	888	214
Units outstanding, end of period	123,313	67,837

The DSUs granted during the years ended December 31, 2017 and 2016 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of $10.99 and $8.87, respectively, on the date of grant. At December 31, 2017, the fair value of all outstanding DSUs amounted to $1,939 (December 31, 2016 - $568). For the year ended December 31, 2017, DSU compensation expense, including changes in fair value during the year, amounted to $1,371 (year-ended December 31, 2016 - $568), which was recorded in selling, general and administrative expense in the consolidated statement of operations.

Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSU's and PSUs for the year ended December 31, 2017:

	RSUs	PSUs	Total
Units outstanding, beginning of period	-	-	-
Units granted during the period	77,304	77,304	154,608
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, end of period	77,304	77,304	154,608

The RSUs and PSUs granted during the year ended December 31, 2017 had a weighted average fair value per unit of $11.92 on the date of grant. For the year ended December 31, 2017, RSU and PSU compensation expense, including changes in fair value during the year, amounted to $1,380 (year-ended December 31, 2016 - $Nil), which was recorded in selling, general and administrative expense in the consolidated statement of operations.

Unrecognized RSU and PSU compensation expense as at December 31, 2017 was $803 (December 31, 2016 - $Nil) and will be recognized in profit and loss over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the year ended December 31, 2017 are shown in the table below:

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

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

15. EARNINGS PER SHARE

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

	Year ended December 31, 2017			Year ended December 31, 2016		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,527,271	$	1.84	86,389,379	$	1.07
Effect of dilutive securities:						
Stock options	252,035		-	137,904		-
Diluted	86,779,306	$	1.84	86,527,283	$	1.07

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

For the year ended December 31, 2017, 767,000 options (year-ended December 31, 2016 - 2,010,749) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. RESEARCH AND DEVELOPMENT COSTS

		Year ended December 31, 2017		Year ended December 31, 2016
Research and development costs, gross	$	27,571	$	23,825
Capitalized development costs		(14,211)		(12,624)
Amortization of capitalized development costs		13,237		13,652
Net expense	$	26,597	$	24,853

17. PERSONNEL EXPENSES

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

	Note		Year ended December 31, 2017		Year ended December 31, 2016
Wages and salaries and other short-term employee benefits		$	873,731	$	877,674
Expenses related to pension and post-retirement benefits	12		4,487		4,274
RSU and PSU compensation expense (including changes in fair value during the year)	14		1,380		-
DSU compensation expense (including changes in fair value during the year)	14		1,371		568
Stock-based compensation expense	14		123		333
		$	881,092	$	882,849

18. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

		Year ended December 31, 2017		Year ended December 31, 2016
Debt interest, gross	$	(25,817)	$	(27,404)
Capitalized interest - at an average rate of 2.8% (2016 - 2.7%)		3,290		3,208
Finance expense	$	(22,527)	$	(24,196)

		Year ended December 31, 2017		Year ended December 31, 2016
Net foreign exchange gain (loss)	$	1,167	$	(2,228)
Unrealized gain on derivative instruments (note 7)		3,697		-
Other income, net		275		319
Other finance income (expense)	$	5,139	$	(1,909)

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

19. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated financial statements. The Company uses 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:

	Year ended December 31, 2017			Year ended December 31, 2016		
	Sales	Property, plant and equipment	Operating Income	Sales	Property, plant and equipment	Operating Income
North America						
Canada	$ 778,930	$ 158,213		$ 886,936	$ 176,901	
USA	1,360,796	400,618		1,629,029	408,430	
Mexico	954,700	410,218		872,844	418,353	
Eliminations	(180,640)	-		(166,149)	-	
	$ 2,913,786	$ 969,049	$ 213,493	$ 3,222,660	1,003,684	$ 128,783
Europe						
Germany	433,806	134,366		415,056	93,061	
Spain	162,832	91,157		167,575	78,443	
Slovakia	61,026	14,323		55,150	13,066	
Eliminations	(635)	-		(1,699)	-	
	657,029	239,846	38,388	636,082	184,570	35,003
Rest of the World	132,067	73,729	(5,257)	122,989	68,993	(4,342)
Eliminations	(12,383)			(13,324)		
	$ 3,690,499	$ 1,282,624	$ 246,624	$ 3,968,407	$ 1,257,247	$ 159,444

20. FINANCIAL INSTRUMENTS

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

Fair Value

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

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

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

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

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 71,193	$ 71,193	$ -	$ -
Other assets (note 7)	15,265	11,275	3,990	-
Foreign exchange forward contracts (note 9)	$ (146)	$ -	$ (146)	$ -

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 59,165	$ 59,165	$ -	$ -
Foreign exchange forward contracts (note 9)	$ (208)	$ -	$ (208)	$ -

Fair values versus carrying amounts

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

December 31, 2017	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Loans and receivables**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 556,049	$ -	$ 556,049	$ 556,049
Other assets (note 7)	3,990	11,275	-	-	15,265	15,265
	3,990	11,275	556,049	-	571,314	571,314
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(741,403)	(741,403)	(741,403)
Long-term debt	-	-	-	(654,017)	(654,017)	(654,017)
Foreign exchange forward contracts	(146)	-	-	-	(146)	(146)
	(146)	-	-	(1,395,420)	(1,395,566)	(1,395,566)
Net financial assets (liabilities)	$ 3,844	$ 11,275	$ 556,049	$ (1,395,420)	$ (824,252)	$ (824,252)

December 31, 2016	**Fair value through profit or loss**	**Loans and receivables**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:					
Trade and other receivables	$ -	$ 568,445	$ -	$ 568,445	$ 568,445
	-	568,445	-	568,445	568,445
FINANCIAL LIABILITIES:					
Trade and other payables	-	-	(706,799)	(706,799)	(706,799)
Long-term debt	-	-	(721,403)	(721,403)	(721,403)
Foreign exchange forward contracts	(208)	-	-	(208)	(208)
	(208)	-	(1,428,202)	(1,428,410)	(1,428,410)
Net financial assets (liabilities)	$ (208)	$ 568,445	$ (1,428,202)	$ (859,965)	$ (859,965)

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

Risk Management

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

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

(a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 32.5%, 28.1%, and 14.9% of its production sales for the year ended December 31, 2017 (December 31, 2016 - 31.5%, 28.6% and 15.0%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The trade accounts receivable that were past due as at December 31, 2017 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:

	December 31, 2017	December 31, 2016
0-60 days	$ 501,336	$ 526,483
61-90 days	19,853	16,540
Greater than 90 days	17,641	12,051
	$ 538,830	$ 555,074

(b) Liquidity risk

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

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

(c) Interest rate risk

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

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

	Carrying amount	
	December 31, 2017	December 31, 2016
Variable rate instruments	$ 551,656	$ 631,879
Fixed rate instruments	102,361	89,524
	$ 654,017	$ 721,403

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $6,015 (December 31, 2016 - $6,246) on the Company's consolidated financial results for the year ended December 31, 2017.

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

(d) Currency risk

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

At December 31, 2017, 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
Sell Canadian Dollars	$	20,000	1.2835	1
Buy Mexican Peso	$	30,468	19.3319	2

The aggregate value of these forward contracts as at December 31, 2017 was a pre-tax loss of $146 and was recorded in trade and other payables (December 31, 2016 - loss of $208).

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

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

December 31, 2016		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	289,124	€	59,222	$	27,941	R$	15,359	¥	156,848
Trade and other payables		(353,541)		(73,297)		(116,038)		(17,432)		(79,703)
Long-term debt		(295,971)		(38,813)		-		(495)		-
	$	(360,388)	€	(52,888)	$	(88,097)	R$	(2,568)	¥	77,145

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2017 and 2016:

	Average rate		Closing rate	
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
USD	1.3029	1.3286	1.2571	1.3427
EURO	1.4576	1.4727	1.5089	1.4169
PESO	0.0688	0.0722	0.0639	0.0651
BRL	0.4077	0.3780	0.3795	0.4125
CNY	0.1920	0.2012	0.1924	0.1930

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10% strengthening of the Canadian dollar against the following currencies at December 31, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2017 by the amounts shown below, assuming all other variables remain constant:

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

	Year ended December 31, 2017	Year ended December 31, 2016
USD	$ (6,333)	$ (1,226)
EURO	(4,559)	(4,114)
BRL	938	671
CNY	(305)	(57)
	$ (10,259)	$ (4,726)

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

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

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

(f) Capital risk management

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

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material 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.

21. COMMITMENTS AND CONTINGENCIES

Commitments

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

	December 31, 2017	December 31, 2016
Future minimum lease payments under operating leases	$ 210,189	$ 195,272
Capital and other purchase commitments (all due in less than one year)	416,130	403,434
	$ 626,319	$ 598,706

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

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

	December 31, 2017	December 31, 2016
Less than one year	$ 34,735	$ 27,486
Between one and five years	100,090	84,276
More than five years	75,364	83,510
	$ 210,189	$ 195,272

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 $83,110 (BRL $219,460) including interest and penalties to December 31, 2017 (December 31, 2016 - $82,453 or BRL 199,886). 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 $57,152 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

22. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At December 31, 2017, the amount of the program financing was $75,189 (December 31, 2016 - $65,468) 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 2017 or 2016. 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.

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

23. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

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

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries, pension and other short-term employee benefits	$ 12,487	$ 11,660
Termination benefits *	1,767	-
RSU and PSU compensation expense (including changes in fair value during the year)	1,380	-
DSU compensation expense (including changes in fair value during the year)	1,371	568
Stock-based compensation expense	123	333
Net expense	$ 17,128	$ 12,561

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

24. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company:

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

CORPORATE INFORMATION

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Martinrea International Inc.

Scott Balfour (1), (2), (3)
Chief Operating Officer
Emera Inc.

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

Roman Doroniuk (1), (2), (3)
Independent Consultant, Financial and Strategic Advisory Services

Terry Lyons (1), (2), (3)
Corporate Director and Lead Director, Canaccord Genuity Group Inc.

Frank Macher (1), (2), (3)
Senior Advisor to Teijin Corporation, Advisor to Achates Power

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

Sandra Pupatello (1), (2), (3)
President, Canadian International Avenues Ltd.

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

Corporate Executive Officers

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

Certificate Transfer and Address Change

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Stock Listing

The Toronto Stock Exchange (TSX: MRE)

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