MARTINREA INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Martinrea International Inc.

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MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

(Signed) *“Pat D’Eramo”*

Pat D’Eramo

President & Chief Executive Officer

(Signed) *“Fred Di Tosto”*

Fred Di Tosto

Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Martinrea International Inc.

Opinion

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

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

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

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

Basis for Opinion

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

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Martinrea International Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

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

Subsequent Event (note 7)

Commitments and Contingencies (note 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

Martinrea International Inc.

Consolidated Statements of Operations

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

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

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

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

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

See accompanying notes to the consolidated financial statements.

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

1. BASIS OF PREPARATION

(a) Statement of compliance

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

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

(b) Presentation currency

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

(c) Use of estimates and judgements

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

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

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

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

entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.
- Estimates used in determining the fair value of stock option and performance share unit grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options/units granted, where relevant.
- Estimates used in determining the fair value of derivative instruments associated with investments in equity securities. These estimates include assumptions about the volatility of the investee's stock and expected life of the instrument.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Foreign currency

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

(i) Foreign currency transactions

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

(ii) Translation of financial statements of foreign operations

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

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

(c) Financial instruments

(i) Financial assets and liabilities

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

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

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

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

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

(ii) Impairment of financial assets

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

(iii) Derivative financial instruments not accounted for as hedges

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

(iv) Hedge accounting

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

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

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

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

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

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

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

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Land is not depreciated.

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

(e) Intangible assets

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

(i) Customer contracts and relationships:

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

(ii) Research and development:

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

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

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

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

(f) Inventories

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

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

(g) Impairment of non-financial assets

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

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

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

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

(h) Pensions and other post-retirement benefits

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

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

(i) Provisions

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

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

(j) Revenue recognition

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

(k) Finance expense

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

(l) Other finance income (expense)

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

(m) Income tax

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

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

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

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

(n) Guarantees

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

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

(o) Stock-based payments

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

(p) Earnings per share

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

(q) Segment reporting

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

(r) Deferred Share Unit Plan

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

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

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

(s) Performance and Restricted Share Unit Plan

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

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

(t) Recently adopted accounting standards

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

IFRS 15, Revenue from Contracts with Customers

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

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

IFRS 9, Financial Instruments

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

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

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

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

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

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

3. TRADE AND OTHER RECEIVABLES

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

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

4. INVENTORIES

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

5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

6. INTANGIBLE ASSETS

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

Movement in intangible assets is summarized as follows:

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

7. OTHER ASSETS

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

Investment in NanoXplore Inc.

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

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

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

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

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

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

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

8. IMPAIRMENT OF ASSETS

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

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

9. TRADE AND OTHER PAYABLES

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

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

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

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

10. PROVISIONS

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

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

(a) Restructuring

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

(b) Claims and litigation

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

11. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

Movement in long-term debt is summarized as follows:

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

12. PENSIONS AND OTHER POST RETIREMENT BENEFITS

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

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

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

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

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

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

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

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

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

Accrued benefit obligation:

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

Plan assets:

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

Pension benefit expense recognized in net income:

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

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

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

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

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

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

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

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

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

Weighted average actuarial assumptions

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

Sensitivity of Key Assumptions

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

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

13. INCOME TAXES

The components of income tax expense are as follows:

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

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

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

Reconciliation of effective tax rate

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

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

The movement of deferred tax assets are summarized below:

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

The movement of deferred tax liabilities are summarized below:

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

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

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

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

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

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

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

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

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

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

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

14. CAPITAL STOCK

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

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

Repurchase of capital stock:

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

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

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

Stock options

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

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

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

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

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

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

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

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

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

Deferred Share Unit Plan

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

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

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

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

Performance Restricted Share Unit Plan

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

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

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

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

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

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

15. EARNINGS PER SHARE

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

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

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

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

16. RESEARCH AND DEVELOPMENT COSTS

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

17. PERSONNEL EXPENSES

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

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

18. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

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

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

19. OPERATING SEGMENTS

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

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

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

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

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

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

20. FINANCIAL INSTRUMENTS

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

Fair Value

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

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

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

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

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

Fair values versus carrying amounts

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

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

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

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

Risk Management

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

(a) Credit risk

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

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

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

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

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

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

(b) Liquidity risk

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

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

(c) Interest rate risk

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

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

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

Sensitivity analysis

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

(d) Currency risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Sensitivity analysis

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

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

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

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

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

(f) Capital risk management

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

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

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

21. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

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

Contingencies

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

Tax contingency

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

22. GUARANTEES

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

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

23. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

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

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

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

24. LIST OF CONSOLIDATED ENTITIES

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

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