

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

**For the three and six months ended June 30, 2016**

The following management discussion and analysis (“MD&A”) was prepared as of August 2, 2016 and should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2016 (“interim consolidated financial statements”), as well as the Company’s audited consolidated financial statements and MD&A for the year ended December 31, 2015 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company’s Annual Information Form for the year ended December 31, 2015, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (TSX:MRE) (“Martinrea” or the “Company”) is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs over 14,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

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

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

**OVERALL RESULTS**

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

	<b>Three months ended June 30, 2016</b>	<b>Three months ended June 30, 2015</b>	<b>\$ Change</b>	<b>% Change</b>
Sales	\$ 1,023,825	\$ 984,046	39,779	4.0%
Gross Margin	116,222	106,379	9,843	9.3%
Operating Income	18,729	50,238	(31,509)	(62.7%)
Net Income (loss) for the period	(27)	33,607	(33,634)	(100.1%)
Net Income (loss) Attributable to Equity Holders of the Company	\$ (42)	\$ 33,411	(33,453)	(100.1%)
Net Earnings per Share – Basic and Diluted	\$ -	\$ 0.39	(0.39)	(100.0%)
<b><u>Non-IFRS Measures*</u></b>				
Adjusted Operating Income	\$ 56,992	\$ 50,238	6,754	13.4%
<i>as a % of Sales</i>	5.6%	5.1%		
Adjusted EBITDA	94,649	83,793	10,856	13.0%
<i>as a % of Sales</i>	9.2%	8.5%		
Adjusted Net Income Attributable to Equity Holders of the Company	37,663	33,411	4,252	12.7%
Adjusted Net Earnings per Share - Basic and Diluted	\$ 0.44	\$ 0.39	0.05	12.8%

	Six months ended June 30, 2016		Six months ended June 30, 2015		\$ Change	% Change
Sales	\$	2,063,275	\$	1,901,577	161,698	8.5%
Gross Margin		228,040		202,018	26,022	12.9%
Operating Income		70,074		93,948	(23,874)	(25.4%)
Net Income for the period		32,504		64,115	(31,611)	(49.3%)
Net Income Attributable to Equity Holders of the Company	\$	32,529	\$	63,830	(31,301)	(49.0%)
Net Earnings per Share – Basic	\$	0.38	\$	0.75	(0.37)	(49.3%)
Net Earnings per Share – Diluted	\$	0.38	\$	0.74	(0.36)	(48.6%)
<b>Non-IFRS Measures*</b>						
Adjusted Operating Income	\$	108,337	\$	93,948	14,389	15.3%
as a % of Sales		5.3%		4.9%		
Adjusted EBITDA		183,671		158,716	24,955	15.7%
as a % of Sales		8.9%		8.3%		
Adjusted Net Income Attributable to Equity Holders of the Company		70,234		63,830	6,404	10.0%
Adjusted Net Earnings per Share - Basic	\$	0.81	\$	0.75	0.06	8.0%
Adjusted Net Earnings per Share - Diluted	\$	0.81	\$	0.74	0.07	9.5%

#### **\*Non-IFRS Measures**

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

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

	Three months ended June 30, 2016		Three months ended June 30, 2015	
Net Income (loss) Attributable to Equity Holders of the Company	\$	(42)	\$	33,411
Unusual and Other Items (after-tax)*		37,705		-
Adjusted Net Income Attributable to Equity Holders of the Company	\$	37,663	\$	33,411

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Net Income Attributable to Equity Holders of the Company	\$	32,529	\$	63,830
Unusual and Other Items (after-tax)*		37,705		-
Adjusted Net Income Attributable to Equity Holders of the Company	\$	70,234	\$	63,830

\*Unusual and other items for the three and six months ended June 30, 2016 are explained in the “Adjustments to Net Income” section of this MD&A

	Three months ended June 30, 2016		Three months ended June 30, 2015	
Net Income (loss) Attributable to Equity Holders of the Company	\$	(42)	\$	33,411
Non-controlling interest		15		196
Income tax expense		11,637		10,732
Other finance expense (income)		1,219		(650)
Finance expense		5,900		6,549
Unusual and Other Items (before-tax)*		38,263		-
Adjusted Operating Income	\$	56,992	\$	50,238
Depreciation of property, plant and equipment		33,601		30,135
Amortization of intangible assets		4,078		3,595
Loss/(gain) on disposal of property, plant and equipment		(22)		(175)
Adjusted EBITDA	\$	94,649	\$	83,793

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Net Income Attributable to Equity Holders of the Company	\$	32,529	\$	63,830
Non-controlling interest		(25)		285
Income tax expense		22,136		19,981
Other finance expense (income)		3,340		(3,252)
Finance expense		12,094		13,104
Unusual and Other Items (before-tax)*		38,263		-
Adjusted Operating Income	\$	108,337	\$	93,948
Depreciation of property, plant and equipment		67,223		58,717
Amortization of intangible assets		8,082		6,796
Loss/(gain) on disposal of property, plant and equipment		29		(745)
Adjusted EBITDA	\$	183,671	\$	158,716

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

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

## **SALES**

### **Three months ended June 30, 2016 to three months ended June 30, 2015 comparison**

	Three months ended June 30, 2016		Three months ended June 30, 2015		\$ Change	% Change
North America	\$	833,950	\$	798,705	35,245	4.4%
Europe		167,564		165,962	1,602	1.0%
Rest of the World		22,311		19,379	2,932	15.1%
Total Sales	\$	1,023,825	\$	984,046	39,779	4.0%

The Company's consolidated sales for the second quarter of 2016 increased by \$39.8 million or 4.0% to \$1,023.8 million as compared to \$984.0 million for the second quarter of 2015. Sales increased year-over-year across all operating segments.

Sales for the second quarter of 2016 in the Company's North America operating segment increased by \$35.2 million or 4.4% to \$833.9 million from \$798.7 million for the second quarter of 2015. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2016 of approximately \$33.3 million as compared to the second quarter of 2015; a \$29.0 million increase in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer; and the launch of new programs during or subsequent to the second quarter of 2015, including the Chevrolet Malibu, Cadillac CT6, and higher volumes on the Chrysler mini-van platform. These positive factors were offset by lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200 and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the second quarter of 2015; and some previously unplanned shutdowns from GM of four assembly plants for two weeks because of an earthquake in Japan disrupting the supply chain. The planned shutdown of Chrysler's V6 Pentastar engine block program for re-

tooling, which commenced during the fourth quarter of 2015, also negatively impacted production sales in North America during the three months ended June 30, 2016 as compared to the comparative period of 2015. The re-tooling was completed near the end of the first quarter of 2016. Volumes on the program ramped up during the second quarter but did not return to historical levels until the end of the quarter.

Sales for the second quarter of 2016 in the Company's Europe operating segment increased by \$1.6 million or 1.0% to \$167.6 million from \$166.0 million for the second quarter of 2015. The increase can be attributed to increased production sales in the Company's new operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlogs of new business, an \$11.7 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2015, and a \$5.5 million increase in tooling sales; partially offset by lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015.

Sales for the second quarter of 2016 in the Company's Rest of the World operating segment increased by \$2.9 million or 15.1% to \$22.3 million from \$19.4 million in the second quarter of 2015. The increase was mainly due to a year-over-year increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business, and a \$0.2 million increase in tooling sales; partially offset by a \$0.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2015 and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels. The year-over-year increase in sales in the Company's operations in China was tempered by an unplanned OEM shutdown of one of its key light vehicle platforms during the quarter. The program was down for seven weeks during the second quarter and came back online in July subsequent to the quarter-end.

Overall tooling sales increased by \$34.7 million to \$72.2 million for the second quarter of 2016 from \$37.5 million for the second quarter of 2015.

**Six months ended June 30, 2016 to six months ended June 30, 2015 comparison**

	Six months ended June 30, 2016		Six months ended June 30, 2015		\$ Change	% Change
North America	\$	1,673,939	\$	1,511,821	162,118	10.7%
Europe		332,233		353,364	(21,131)	(6.0%)
Rest of the World		57,103		36,392	20,711	56.9%
<b>Total Sales</b>	<b>\$</b>	<b>2,063,275</b>	<b>\$</b>	<b>1,901,577</b>	<b>161,698</b>	<b>8.5%</b>

The Company's consolidated sales for the six months ended June 30, 2016 increased by \$161.7 million or 8.5% to \$2,063.3 million as compared to \$1,901.6 million for the six months ended June 30, 2015. The total increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the six months ended June 30, 2016 in the Company's North America operating segment increased by \$162.1 million or 10.7% to \$1,673.9 million from \$1,511.8 million for the six months ended June 30, 2015. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2016 of approximately \$129.2 million as compared to the comparative period of 2015; the launch of new programs during or subsequent to the six months ended June 30, 2015, including the Chevrolet Malibu, Ford Edge, Cadillac CT6, higher volumes on the Chrysler mini-van platform; and a year-over-year increase in tooling sales of \$41.9 million. These positive variances were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200 and other platforms late in their product life cycle such as the GM Equinox, and programs that ended production during or subsequent to the six months ended June 30, 2015; and some previously unplanned shutdowns from GM of four assembly plants for two weeks because of an earthquake in Japan disrupting the supply chain. The planned shutdown of Chrysler's V6 Pentastar engine block program for re-tooling, which commenced during the fourth quarter of 2015, also negatively impacted production sales in North America during the six months ended June 30, 2016 as compared to the comparative period of 2015. The re-tooling was completed near the end of the first quarter of 2016. Volumes on the program ramped up during the second quarter but did not return to historical levels until the end of the quarter.

Sales for the six months ended June 30, 2016 in the Company's Europe operating segment decreased by \$21.1 million or 6.0% to \$332.2 million from \$353.4 million for the six months ended June 30, 2015. The decrease can be attributed to an \$8.4 million decrease in tooling sales and lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlogs of new business, and the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2016 of approximately \$22.9 million as compared to the comparable period of 2015.

Sales for the six months ended June 30, 2016 in the Company's Rest of the World operating segment increased by \$20.7 million or 56.9% to \$57.1 million from \$36.4 million for the six months ended June 30, 2015. The increase can be attributed to an increase in production sales in the Company's two new operating facilities in China, which continue to ramp up and execute on their backlogs of new business, and a \$6.0 million increase in tooling sales; partially offset by the translation of foreign denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2016 of \$0.5 million as compared to the comparative period of 2015, and lower year-over-year production sales in the Company's operating facility in Brazil where OEM light vehicle production volumes continue to trend at low levels. The year-over-year increase in sales in the Company's operations in China was tempered by an unplanned OEM shutdown of one of its key light vehicle platforms during the second quarter. The program was down for seven weeks during the second quarter and came back online in July subsequent to the quarter-end.

Overall tooling sales increased by \$39.5 million to \$107.5 million for the six months ended June 30, 2016 from \$68.0 million for the six months ended June 30, 2015.

## **GROSS MARGIN**

### ***Three months ended June 30, 2016 to three months ended June 30, 2015 comparison***

	<b>Three months ended June 30, 2016</b>	<b>Three months ended June 30, 2015</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 116,222	\$ 106,379	9,843	9.3%
% of sales	11.4%	10.8%		

The gross margin percentage for the second quarter of 2016 of 11.4% increased as a percentage of sales by 0.6% as compared to the gross margin percentage for the second quarter of 2015 of 10.8%. The increase in gross margin as a percentage of sales was generally due to:

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

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes on the Chrysler 200 and certain other programs.

### ***Six months ended June 30, 2016 to six months ended June 30, 2015 comparison***

	<b>Six months ended June 30, 2016</b>	<b>Six months ended June 30, 2015</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 228,040	\$ 202,018	26,022	12.9%
% of sales	11.1%	10.6%		

The gross margin percentage for the six months ended June 30, 2016 of 11.1% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the six months ended June 30, 2015 of 10.6%. The increase in gross margin as a percentage of sales was generally due to:

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

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel; and
- general sales mix including lower production volumes on the Chrysler 200 and certain other programs.

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

##### **Three months ended June 30, 2016 to three months ended June 30, 2015 comparison**

	Three months ended June 30, 2016	Three months ended June 30, 2015	\$ Change	% Change
Selling, general & administrative	\$ 50,661	\$ 48,606	2,055	4.2%
% of sales	4.9%	4.9%		

SG&A expense for the second quarter of 2016 increased by \$2.1 million to \$50.7 million as compared to \$48.6 million for the second quarter of 2015. The increase is predominantly due to foreign exchange translation and costs incurred at new and/or expanded facilities, including incremental employment levels to support the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs. SG&A expense as a percentage of sales remained consistent year-over-year at 4.9% for the second quarter of 2016 and the comparative period of 2015.

##### **Six months ended June 30, 2016 to six months ended June 30, 2015 comparison**

	Six months ended June 30, 2016	Six months ended June 30, 2015	\$ Change	% Change
Selling, general & administrative	\$ 102,115	\$ 93,283	8,832	9.5%
% of sales	4.9%	4.9%		

SG&A expense for the six months ended June 30, 2016 increased by \$8.8 million to \$102.1 million as compared to \$93.3 million for the six months ended June 30, 2015. The increase is predominantly due to foreign exchange translation and costs incurred at new and/or expanded facilities, including incremental employment levels to support the business. SG&A expense as a percentage of sales remained consistent year-over-year at 4.9% for the six months ended June 30, 2016 and the comparative period of 2015.

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

##### **Three months ended June 30, 2016 to three months ended June 30, 2015 comparison**

	Three months ended June 30, 2016	Three months ended June 30, 2015	\$ Change	% Change
Depreciation of PP&E (production)	\$ 31,501	\$ 28,280	3,221	11.4%
Depreciation of PP&E (non-production)	2,100	1,855	245	13.2%
Amortization of customer contracts and relationships	588	577	11	1.9%
Amortization of development costs	3,490	3,018	472	15.6%
Total depreciation and amortization	\$ 37,679	\$ 33,730	3,949	11.7%

Total depreciation and amortization expense for the second quarter of 2016 increased by \$3.9 million to \$37.7 million as compared to \$33.7 million for the second quarter of 2015. The increase in total depreciation and amortization expense was primarily due to foreign exchange translation, an increase in depreciation expense on a larger PP&E base resulting from the growth in the Company's book of business, and increased amortization of development costs as new and replacement programs, for which development costs were incurred, start production and reach peak volumes. A significant portion of the Company's recent investments relates to various new programs put to use during or subsequent to the second quarter of 2015. The Company continues to make significant investments in the business in light of its backlog of business and growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-over to 3.1% for the second quarter of 2016 from 2.9% for the second quarter of 2015 as recent investments in equipment are put to use.

**Six months ended June 30, 2016 to six months ended June 30, 2015 comparison**

	Six months ended June 30, 2016	Six months ended June 30, 2015	\$ Change	% Change
Depreciation of PP&E (production)	\$ 62,919	\$ 55,175	7,744	14.0%
Depreciation of PP&E (non-production)	4,304	3,542	762	21.5%
Amortization of customer contracts and relationships	1,123	1,116	7	0.6%
Amortization of development costs	6,959	5,680	1,279	22.5%
<b>Total depreciation and amortization</b>	<b>\$ 75,305</b>	<b>\$ 65,513</b>	<b>9,792</b>	<b>14.9%</b>

Total depreciation and amortization expense for the six months ended June 30, 2016 increased by \$9.8 million to \$75.3 million as compared to \$65.5 million for the six months ended June 30, 2015. Similar to the year-over-year quarterly trend noted above, the increase in total depreciation and amortization expense was primarily due to foreign exchange translation, an increase in depreciation expense on a larger PP&E base resulting from growth in the Company's book of business, and increased amortization of development costs as new and replacement programs, for which development costs were incurred, started production and reached peak volumes.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-year to 3.0% for the six months ended June 30, 2016 compared to 2.9% for the six months ended June 30, 2015 as recent investments in equipment are put to use.

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

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

**TABLE A**

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

	For the three months ended June 30, 2016 (a)	For the three months ended June 30, 2015 (b)	(a)-(b) Change
<b>NET INCOME (LOSS) (A)</b>	<b>(\$42)</b>	<b>\$33,411</b>	<b>(\$33,453)</b>
<b>Add back - Unusual and Other Items:</b>			
Impairment of Assets (1)	34,579	-	34,579
Restructuring Costs (2)	3,684	-	3,684
<b>TOTAL UNUSUAL AND OTHER ITEMS - BEFORE TAX</b>	<b>\$38,263</b>	<b>-</b>	<b>\$38,263</b>
Tax impact of above items (3)	(558)	-	(558)
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)</b>	<b>\$37,705</b>	<b>-</b>	<b>\$37,705</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$37,663</b>	<b>\$33,411</b>	<b>\$4,252</b>
Number of Shares Outstanding – Basic ('000)	86,385	85,800	
Adjusted Basic Net Earnings Per Share	\$0.44	\$0.39	
Number of Shares Outstanding – Diluted ('000)	86,578	86,608	
Adjusted Diluted Net Earnings Per Share	\$0.44	\$0.39	

**TABLE B***Six months ended June 30, 2016 to six months ended June 30, 2015 comparison*

	For the six months ended June 30, 2016 (a)	For the six months ended June 30, 2015 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$32,529</b>	<b>\$63,830</b>	<b>(\$31,301)</b>
<b>Add back - Unusual and Other Items:</b>			
Impairment of Assets (1)	34,579	-	34,579
Restructuring Costs (2)	3,684	-	3,684
<b>TOTAL UNUSUAL AND OTHER ITEMS - BEFORE TAX</b>	<b>\$38,263</b>	<b>-</b>	<b>\$38,263</b>
Tax impact of above items (3)	(558)	-	(558)
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)</b>	<b>\$37,705</b>	<b>-</b>	<b>\$37,705</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$70,234</b>	<b>\$63,830</b>	<b>\$6,404</b>
Number of Shares Outstanding – Basic ('000)	86,385	85,444	
Adjusted Basic Net Earnings Per Share	\$0.81	\$0.75	
Number of Shares Outstanding – Diluted ('000)	86,603	86,099	
Adjusted Diluted Net Earnings Per Share	\$0.81	\$0.74	

**(1) Impairment of Assets**

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

**(2) Restructuring Costs**

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's German operating facility in Meschede. Additional restructuring costs in Meschede, Germany in the form of employee related severance of \$1,810 (€1,238) were incurred during the second quarter of 2016. No further costs related to this restructuring are expected to be incurred.

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

**(3) Tax Impact of Above Items**

The tax impact of the adjustments to income of \$558 represents solely the corresponding tax effect on the \$1,810 in restructuring costs incurred in Meschede, Germany. The \$34,579 in impairment charges and \$1,874 in restructuring costs related to the closure of the operating facility in Detroit, Michigan, as described above, resulted in tax losses that were not benefitted and, as a result, not recognized as a deferred tax asset. This created a higher unadjusted tax rate for the quarter of 100.2% compared to 24.4% in Q1 2016. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of taxable temporary differences; however, forming a conclusion on the realization of deferred tax assets requires judgment when there are recent tax losses.

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

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	\$ Change	% Change
Net Income (loss)	\$ (42)	\$ 33,411	(33,453)	(100.1%)
Adjusted Net Income	\$ 37,663	\$ 33,411	4,252	12.7%
Net Earnings per Share				
Basic	\$ -	\$ 0.39		
Diluted	\$ -	\$ 0.39		
Adjusted Net Earnings per Share				
Basic	\$ 0.44	\$ 0.39		
Diluted	\$ 0.44	\$ 0.39		

Net Income, before adjustments, for the second quarter of 2016 decreased by \$33.5 million to a net loss of (\$0.04) million from \$33.4 million for the second quarter of 2015 as a result of the impairment charges and restructuring costs incurred during the quarter as explained in Table A under "Adjustments to Net Income". Excluding these impairment charges and restructuring costs, net income for the second quarter of 2016 increased to \$37.7 million or \$0.44 per share, on a basic and diluted basis, from \$33.4 million or \$0.39 per share, on a basic and diluted basis, for the second quarter of 2015.

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

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

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes on the Chrysler 200 and certain other programs;
- a year-over-year increase in SG&A as previously discussed;
- a net foreign exchange loss of \$1.3 million in the second quarter of 2016 compared to a net foreign exchange gain of \$0.6 million in the second quarter of 2015;
- a slight year-over-year increase in research and development expenses, due predominantly to increased amortization of development costs; and
- a slightly higher effective tax rate on adjusted income due generally to the mix of earnings (24.5% for the second quarter of 2016 compared to 24.2% for the second quarter of 2015).

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

On May 3, 2016, the Company provided the following guidance for the second quarter of 2016:

	Guidance	Actual
Production sales (in millions)	\$ 960 - 1,000	\$ 952
Adjusted Net Earnings per Share		
Basic & Diluted	\$ 0.43 - 0.47	\$ 0.44

For the second quarter of 2016, while Adjusted Net Earnings per Share of \$0.44 was within the range of published guidance, production sales of \$952 million came in slightly below the published sales guidance range due to lower than expected production volumes on the Chrysler 200 platform and unplanned customer shutdown weeks on one of the Company's key OEM light vehicle platforms in its China operations not reflected in the production sales guidance range provided for the second quarter.

**Six months ended June 30, 2016 to six months ended June 30, 2015 comparison**

	Six months ended June 30, 2016		Six months ended June 30, 2015		\$ Change	% Change
Net Income	\$	32,529	\$	63,830	(31,301)	(49.0%)
Adjusted Net Income	\$	70,234	\$	63,830	6,404	10.0%
Net Earnings per Share						
Basic	\$	0.38	\$	0.75		
Diluted	\$	0.38	\$	0.74		
Adjusted Net Earnings per Share						
Basic	\$	0.81	\$	0.75		
Diluted	\$	0.81	\$	0.74		

Net Income, before adjustments, for the six months ended June 30, 2016 decreased by \$31.3 million to \$32.5 million from \$63.8 million for the six months ended June 30, 2015 as a result of the impairment charges and restructuring costs incurred during the second quarter as explained in Table B under "Adjustments to Net Income". Excluding these impairment charges and restructuring costs, net income for the six months ended June 30, 2016 increased to \$70.2 million or \$0.81 per share, on a basic and diluted basis, from \$63.8 million or \$0.75 per share, on a basic basis, and \$0.74 per share, on a diluted basis, for the six months ended June 30, 2015.

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

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

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- general sales mix including lower production volumes on the Chrysler 200 and certain other programs;
- a year-over-year increase in SG&A as previously discussed;
- a net foreign exchange loss of \$3.4 million for the six months ended June 30, 2016 compared to a net foreign exchange gain of \$3.2 million for the comparative period of 2015;
- a slight year-over-year increase in research and development expenses, due predominantly to increased amortization of development costs; and
- a slightly higher effective tax rate on adjusted income due generally to the mix of earnings (24.5% for the six months ended June 30, 2016 compared to 23.8% for the comparative period of 2015).

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

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

	Three months ended June 30, 2016		Three months ended June 30, 2015		\$ Change	% Change
Additions to PP&E	\$	50,161	\$	37,398	12,763	34.1%

Additions to PP&E increased by \$12.8 million to \$50.2 million in the second quarter of 2016 from \$37.4 million in the second quarter of 2015 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales increased year-over-year to 4.9% for the second quarter of 2016 from 3.8% for the second quarter of 2015. While capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in the second quarter of 2016 continued to be for manufacturing equipment and multiple expansions/new operating facilities for programs that recently launched or will be launching over the next 24 months.

**Six months ended June 30, 2016 to six months ended June 30, 2015 comparison**

	Six months ended June 30, 2016		Six months ended June 30, 2015		\$ Change	% Change
Additions to PP&E	\$	92,994	\$	84,735	8,259	9.7%

Additions to PP&E increased by \$8.3 million year-over-year to \$93.0 million for the six months ended June 30, 2016 compared to \$84.7 million for the six months ended June 30, 2015 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales remained consistent year-over-year at 4.5% for the six months ended June 30, 2016 and the comparative period of 2015. The Company continues to make investments in the business in particular at new greenfield operating facilities as these new plants execute on their backlogs of new business.

**SEGMENT ANALYSIS**

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

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

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015
North America	\$ 833,950	\$ 798,705	\$ 46,816	\$ 44,757
Europe	167,564	165,962	11,454	7,681
Rest of the World	22,311	19,379	(1,278)	(2,200)
Adjusted Operating Income	-	-	\$ 56,992	\$ 50,238
Unusual and Other Items*	-	-	(38,263)	-
Total	\$ 1,023,825	\$ 984,046	\$ 18,729	\$ 50,238

\* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$38.3 million of unusual and other items incurred during the second quarter of 2016, \$36.5 million was incurred in North America and \$1.8 million in Europe. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

**North America**

Adjusted Operating Income in North America increased by \$2.1 million to \$46.8 million for the second quarter of 2016 from \$44.8 million for the second quarter of 2015. Adjusted Operating Income in North America was positively impacted by higher gross profit from an overall increase in year-over-year sales as previously explained and productivity and efficiency improvements at certain operating facilities. These factors were partially offset by operational inefficiencies and other costs at certain other facilities and general sales mix, including lower production volumes on the Chrysler 200 and certain other programs.

**Europe**

Adjusted Operating Income in Europe increased by \$3.8 million to \$11.5 million for the second quarter of 2016 from \$7.7 million for the second quarter of 2015. The operating results in Europe were positively impacted by recently added new greenfield operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlogs of new business. Operating income in the Company's Martinrea Honsel Germany operations remained consistent year-over-year despite lower production volumes including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015. The Company's operating facilities in Meschede, Germany have benefitted from the restructuring activities undertaken during 2015 and the second quarter of 2016.

## Rest of the World

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

### Six months ended June 30, 2016 to six months ended June 30, 2015 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2016	Six months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
North America	\$ 1,673,939	\$ 1,511,821	\$ 90,420	\$ 82,334
Europe	332,233	353,364	20,329	15,999
Rest of the World	57,103	36,392	(2,412)	(4,385)
Adjusted Operating Income	-	-	\$ 108,337	\$ 93,948
Unusual and Other Items*	-	-	(38,263)	-
Total	\$ 2,063,275	\$ 1,901,577	\$ 70,074	\$ 93,948

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

## North America

Adjusted Operating Income in North America increased by \$8.1 million to \$90.4 million for the six months ended June 30, 2016 from \$82.3 million for the six months ended June 30, 2015. Adjusted Operating Income in North America was positively impacted by higher gross profit from an overall increase in year-over-year sales as previously explained and productivity and efficiency improvements at certain operating facilities. These factors were partially offset by operational inefficiencies and other costs at certain other facilities, lower recoveries from scrap steel, and general sales mix including lower production volumes on the Chrysler 200 and certain other programs.

## Europe

Adjusted Operating Income in Europe increased by \$4.3 million to \$20.3 million for the six months ended June 30, 2016 from \$16.0 million for the six months ended June 30, 2015. The operating results in Europe were positively impacted by recently added new greenfield operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlogs of new business. Operating income in the Company's Martinrea Honsel Germany operations remained consistent year-over-year despite lower production volumes including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015. The Company's operating facilities in Meschede, Germany have benefitted from the restructuring activities undertaken during 2015 and the second quarter of 2016.

## Rest of the World

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

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

	2016			2015			2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	1,023,825	1,039,450	1,035,314	929,880	984,046	917,531	943,781	859,456
Gross Profit	116,222	111,818	103,829	96,385	106,379	95,639	86,474	78,076
Net Income (loss) for the period	(27)	32,531	27,826	15,232	33,607	30,508	11,926	21,205
Net Income (loss) attributable to equity holders of the Company	(42)	32,571	27,731	15,469	33,411	30,419	11,921	19,384
Adjusted Net Income attributable to equity holders of the Company	37,663	32,571	29,059	25,899	33,411	30,419	22,832	19,384
Basic and Diluted Net Earnings per Share	-	0.38	0.32	0.18	0.39	0.36	0.14	0.23
Adjusted Basic and Diluted Net Earnings per Share	0.44	0.38	0.34	0.30	0.39	0.36	0.27	0.23

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's financial condition remains solid, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at June 30, 2016, the Company had total equity attributable to equity holders of the Company of \$747.6 million. As at June 30, 2016, the Company's ratio of current assets to current liabilities was 1.3:1 (December 31, 2015 - 1.2:1). The Company's current working capital level of \$253.9 million at June 30, 2016, up from \$164.0 million at December 31, 2015, and credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset backed financing.

**CASH FLOWS**

	Three months ended June 30, 2016		Three months ended June 30, 2015		\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$	91,899	\$	85,998	5,901	6.9%
Change in non-cash working capital items		15,613		31,425	(15,812)	(50.3%)
Interest paid		107,512		117,423	(9,911)	(8.4%)
Income taxes paid		(5,112)		(5,926)	814	(13.7%)
		(18,222)		(22,129)	3,907	(17.7%)
Cash provided by operating activities		84,178		89,368	(5,190)	(5.8%)
Cash provided by (used in) in financing activities		6,961		(41,830)	48,791	(116.6%)
Cash used in investing activities		(46,895)		(48,216)	1,321	(2.7%)
Effect of foreign exchange rate changes on cash and cash equivalents		(1,790)		1,032	(2,822)	(273.4%)
Increase in cash and cash equivalents	\$	42,454	\$	354	42,100	11,892.7%

Cash provided by operating activities during the second quarter of 2016 was \$84.2 million, compared to cash provided by operating activities of \$89.4 million in the corresponding period of 2015. The components for the second quarter of 2016 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$91.9 million;
- working capital items source of cash of \$15.6 million comprised of a decrease in inventories of \$27.5 million and an increase in trade, other payables and provisions of \$4.5 million; partially offset by an increase in trade and other receivables of \$15.0 million and an increase in prepaid expenses and deposits of \$1.4 million.
- interest paid (excluding capitalized interest) of \$5.1 million; and
- income taxes paid of \$18.2 million.

Cash provided by financing activities during the second quarter of 2016 was \$7.0 million, compared to a use of cash of \$41.8 million in the corresponding period in 2015, as a result of a \$9.5 million net increase in long term debt (including repayments on the Company's revolving banking facility and asset backed financing arrangements of \$9.5 million); partially offset by \$2.6 million in dividends paid.

Cash used in investing activities during the second quarter of 2016 was \$46.9 million, compared to \$48.2 million in the corresponding period in 2015. The components for the second quarter of 2016 primarily include the following:

- cash additions to PP&E of \$43.7 million;
- capitalized development costs relating to upcoming new program launches of \$3.2 million; partially offset by
- proceeds from the disposal of PP&E of \$0.1 million.

Taking into account the opening cash balance of \$22.4 million at the beginning of the second quarter of 2016, and the activities described above, the cash and cash equivalents balance at June 30, 2016 was \$64.8 million.

	Six months ended June 30, 2016	Six months ended June 30, 2015	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 178,957	\$ 164,351	14,606	8.9%
Change in non-cash working capital items	(49,996)	(15,239)	(34,757)	228.1%
Interest paid	128,961	149,112	(20,151)	(13.5%)
Income taxes paid	(10,000)	(11,114)	1,114	(10.0%)
	(31,268)	(44,557)	13,289	(29.8%)
Cash provided by operating activities	87,693	93,441	(5,748)	(6.2%)
Cash provided by (used in) in financing activities	61,179	(28,719)	89,898	(313.0%)
Cash used in investing activities	(109,027)	(96,894)	(12,133)	12.5%
Effect of foreign exchange rate changes on cash and cash equivalents	(3,907)	799	(4,706)	(589.0%)
Increase (Decrease) in cash and cash equivalents	\$ 35,938	\$ (31,373)	67,311	(214.6%)

Cash provided by operating activities during the six months ended June 30, 2016 was \$87.7 million, compared to cash provided by operating activities of \$93.4 million in the corresponding period of 2015. The components for the six months ended June 30, 2016 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$179.0 million;
- working capital items use of cash of \$50.0 million comprised of an increase in trade and other receivables of \$66.1 million and an increase in prepaid expenses and deposits of \$0.8 million; partially offset by a decrease in inventories of \$8.3 million and an increase in trade, other payables and provisions of \$8.6 million;
- interest paid (excluding capitalized interest) of \$10.0 million; and
- income taxes paid of \$31.3 million.

Cash provided in financing activities during the six months ended June 30, 2016 was \$61.2 million, compared to cash used of \$28.7 million in the corresponding period in 2015, as a result of a \$66.3 million net increase in long term debt (including repayments on the Company's revolving credit facility and asset based financing arrangements) and \$0.1 million in proceeds from the exercise of employee stock options; partially offset by \$5.2 million in dividends paid.

Cash used in investing activities during the six months ended June 30, 2016 was \$109.0 million, compared to \$96.9 million in the corresponding period in 2015. The components for the six months ended June 30, 2016 primarily include the following:

- cash additions to PP&E of \$103.0 million;
- capitalized development costs relating to upcoming new program launches of \$6.3 million; partially offset by
- proceeds from the disposal of PP&E of \$0.2 million.

Taking into account the opening cash balance of \$28.9 million at the beginning of 2016, and the activities described above, the cash and cash equivalents balance at June 30, 2016 was \$64.8 million.

## Financing

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

- available revolving credit lines of \$350 million and US \$400 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$150 million;
- pricing terms at market rates; and
- a maturity date of April 2020.

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

As at June 30, 2016, the Company had drawn \$273.0 million on the Canadian revolving credit line and US\$285.0 million on the U.S. revolving credit line.

Net debt (i.e. long term debt less cash on hand) decreased by \$38.2 million from \$723.0 million at March 31, 2016 to \$684.8 million at June 30, 2016 due predominantly to increased cash on hand balances. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 2.00x at the end of the second quarter of 2016 from 2.18x at the end of the first quarter of 2016.

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

## Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends are to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter, the most recent quarterly dividend being paid on July 15, 2016. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In addition, the Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

## Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2013 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2016 the amount of off-balance sheet program financing was \$80.7 million (December 31, 2015 - \$85.5 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

## **ACQUISITIONS**

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

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

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

Initially, the 2011 purchase transaction envisaged the purchase of all of Honsel's operations, which included plants in Germany located in Meschede, Nuremberg, Soest, and Nuttlar, as well as Madrid, Spain, Queretaro, Mexico, and Monte Mor, Brazil. The Nuremberg facility was subsequently sold to ZF Friedrichshafen AG ("ZF"), the primary customer of the facility, immediately after the closing of the purchase transaction. After factoring in the sale of the Nuremberg facility to ZF, the net cash consideration for the acquisition was €62,125 (\$85,272), of which Martinrea's 55% portion was €34,169 (\$46,900).

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

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

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

The acquisition while bringing many benefits to Martinrea also provides some risks for the Company. Both the initial 2011 purchase of the 55% controlling interest and subsequent purchase of the remaining 45% equity interest in Martinrea Honsel were financed by the Company using available credit lines, which has increased the Company's debt levels. See also "Risks and Uncertainties".

## **RISKS AND UNCERTAINTIES**

The reader is referred to the detailed discussion on Industry Highlights and Trends and Risks and Uncertainties as outlined in the Company's Annual Information Form dated March 3, 2016 and available through SEDAR at [www.sedar.com](http://www.sedar.com) which are incorporated herein by reference. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at August 2, 2016, the Company had 86,384,667 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 2, 2016, options to acquire 3,330,617 common shares were outstanding.

## **CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING**

During the three months ended June 30, 2016, there has been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2015.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2016, the amount of the off balance sheet program financing was \$80.7 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

## Financial Instruments

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

At June 30, 2016, the Company had committed to trade U.S. dollars in exchange for the following:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Euro	\$ 9,812	0.9020	1
Buy Mexican Peso	\$ 3,400	17.6469	1

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Sell Canadian Dollars	\$ 21,000	1.3040	1

The aggregate value of these forward contracts as at June 30, 2016 was a pre-tax loss of \$916 and was recorded in trade and other payables (December 31, 2015 - loss of \$134 recorded in trade and other payables).

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

## CRITICAL ACCOUNTING ESTIMATES

Included in the Company's 2015 annual consolidated financial statements, as well as in the Company's 2015 annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the three and six months ended June 30, 2016 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2015 annual MD&A, except for the following new accounting standards recently adopted.

## **Recently adopted accounting policies and standards**

### Deferred Share Unit Plan

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

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

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

### IFRS 11, Joint Arrangements

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

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

## **Recently issued accounting standards**

The IASB issued the following amendments to existing standards

### Amendments to IFRS 2, Share-Based Payments

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

## **OUTLOOK**

The automotive industry is traditionally an extremely challenging business, characterized at the OEM level by intense competition for market share, rebates to consumers and drives for quality and profits and characterized at the supplier level by price reductions, increasing quality standards, higher input prices and a declining number of qualified suppliers in the normal course or as a result of insolvencies and consolidation. The challenges of the industry were exacerbated by the 2008-2009 economic recession and the financial distress in the industry involving both OEMs and suppliers particularly evidenced by the bankruptcy filings of Chrysler and General Motors in the United States in 2009. The Company believes that the long term outlook of the automotive industry overall, while always challenging, is much improved from 2008 - 2010. In 2010, the North American automotive industry experienced a recovery in volume and revenues, as sales and production volumes increased from 2009 levels, although not to pre-recession levels. Production in 2011 through 2015 and 2016 year-to-date improved substantially. This has resulted in increasing revenues for most automotive OEMs and for suppliers who survived the automotive crisis of 2008 and 2009, including Martinrea.

There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium and longer term. It is expected that growth in business for individual suppliers will occur as OEMs reduce the number of Tier 1 suppliers, continue to outsource product, and provide opportunities for new work and takeover business. The Company believes that its capabilities provide it with the ability to capitalize on a broad range of opportunities. The Company has built its footprint and continues to pursue its strategies and will continue to do so in the future with a view to increasing revenue and profits over the longer term.

## **FORWARD-LOOKING INFORMATION**

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

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

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and in-sourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits

- impairment charges; and
- cyber security threats.

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