MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the three and six months ended June 30, 2018

The following management discussion and analysis ("MD&A") was prepared as of August 8, 2018 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, 2018 ("interim consolidated financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2017 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company's Annual Information Form for the year ended December 31, 2017, can be found at www.sedar.com.

OVERVIEW

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

Martinrea's vision: making lives better by being the best supplier we can be in the products we make and the services we provide. The Company's mission is to make people's lives better by delivering: 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 contributors to our communities.

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

OVERALL RESULTS

The following tables set out certain highlights of the Company's performance for the three and six months ended June 30, 2018 and 2017. Refer to the Company's interim consolidated financial statements for the three and six months ended June 30, 2018 for a detailed account of the Company's performance for the periods presented in the tables below.

		Three months ended June 30, 2018		Three months ended June 30, 2017	$ Change	% Change
Sales	$	921,710	$	972,772	(51,062)	(5.2%)
Gross Margin		150,035		128,926	21,109	16.4%
Operating Income		81,675		66,958	14,717	22.0%
Net Income for the period		55,727		47,411	8,316	17.5%
Net Income Attributable to Equity Holders of the Company	$	55,727	$	47,346	8,381	17.7%
Net Earnings per Share – Basic and Diluted	$	0.64	$	0.55	0.09	16.4%
Non-IFRS Measures*						
Adjusted Operating Income	$	81,675	$	66,958	14,717	22.0%
% of Sales		*8.9%*		*6.9%*		
Adjusted EBITDA		125,732		108,707	17,025	15.7%
% of Sales		*13.6%*		*11.2%*		
Adjusted Net Income Attributable to Equity Holders of the Company		55,527		47,346	8,181	17.3%
Adjusted Net Earnings per Share – Basic and Diluted	$	0.64	$	0.55	0.09	16.4%

		Six months ended June 30, 2018		Six months ended June 30, 2017	$ Change	% Change
Sales	$	1,885,610	$	1,973,322	(87,712)	(4.4%)
Gross Margin		294,464		247,141	47,323	19.1%
Operating Income		160,116		128,991	31,125	24.1%
Net Income for the period		111,686		90,878	20,808	22.9%
Net Income Attributable to Equity Holders of the Company	$	111,686	$	90,948	20,738	22.8%
Net Earnings per Share – Basic	$	1.29	$	1.05	0.24	22.9%
Net Earnings per Share – Diluted	$	1.28	$	1.05	0.23	21.9%
Non-IFRS Measures*						
Adjusted Operating Income	$	160,116	$	123,293	36,823	29.9%
% of Sales		*8.5%*		*6.2%*		
Adjusted EBITDA		245,694		203,254	42,440	20.9%
% of Sales		*13.0%*		*10.3%*		
Adjusted Net Income Attributable to Equity Holders of the Company		112,157		86,077	26,080	30.3%
Adjusted Net Earnings per Share – Basic	$	1.29	$	1.00	0.29	29.0%
Adjusted Net Earnings per Share – Diluted	$	1.28	$	0.99	0.29	29.3%

***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, 2018		Three months ended June 30, 2017
Net Income Attributable to Equity Holders of the Company	$	55,727	$	47,346
Unusual and Other Items (after-tax)*		(200)		–
Adjusted Net Income Attributable to Equity Holders of the Company	$	55,527	$	47,346

		Six months ended June 30, 2018		Six months ended June 30, 2017
Net Income Attributable to Equity Holders of the Company	$	111,686	$	90,948
Unusual and Other Items (after-tax)*		471		(4,871)
Adjusted Net Income Attributable to Equity Holders of the Company	$	112,157	$	86,077

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

		Three months ended June 30, 2018		Three months ended June 30, 2017
Net Income Attributable to Equity Holders of the Company	$	55,727	$	47,346
Non-controlling interest		–		65
Income tax expense		18,065		14,162
Other finance expense (income) - excluding Unusual and Other Items*		1,205		(112)
Finance expense		6,907		5,497
Unusual and Other Items (before-tax)*		(229)		–
Adjusted Operating Income	$	81,675	$	66,958
Depreciation of property, plant and equipment		40,500		37,719
Amortization of intangible assets		3,333		3,990
Loss on disposal of property, plant and equipment		224		40
Adjusted EBITDA	$	125,732	$	108,707

		Six months ended June 30, 2018		Six months ended June 30, 2017
Net Income Attributable to Equity Holders of the Company	$	111,686	$	90,948
Non-controlling interest		–		(70)
Income tax expense		36,018		27,515
Other finance income - excluding Unusual and Other Items*		(1,534)		(743)
Finance expense		13,408		11,341
Unusual and Other Items (before-tax)*		538		(5,698)
Adjusted Operating Income	$	160,116	$	123,293
Depreciation of property, plant and equipment		78,558		72,528
Amortization of intangible assets		6,810		7,726
Loss (gain) on disposal of property, plant and equipment		210		(293)
Adjusted EBITDA	$	245,694	$	203,254

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

SALES

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

		Three months ended June 30, 2018		Three months ended June 30, 2017	$ Change	% Change
North America	$	701,847	$	789,055	(87,208)	(11.1%)
Europe		188,703		155,620	33,083	21.3%
Rest of the World		33,828		32,767	1,061	3.2%
Eliminations		(2,668)		(4,670)	2,002	(42.9%)
Total Sales	$	921,710	$	972,772	(51,062)	(5.2%)

The Company's consolidated sales for the second quarter of 2018 decreased by $51.1 million or 5.2% to $921.7 million as compared to $972.8 million for the second quarter of 2017. The total decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the second quarter of 2018 in the Company's North America operating segment decreased by $87.2 million or 11.1% to $701.8 million from $789.1 million for the second quarter of 2017. The decrease was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the second quarter of 2018 of approximately $27.7 million as compared to the second quarter of 2017; lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, GM pick-up truck line-up, and programs that ended production during or subsequent to the second quarter of 2017 such as the previous version of the GM Equinox/Terrain; and overall lower year-over-year production volumes resulting from unplanned OEM shutdowns during the second quarter of 2018 because of a fire at an industry-wide supplier of magnesium components which disrupted the automotive supply chain and, as a result, production levels of various vehicle platforms at Ford, FCA, GM, Daimler and BMW for a period of time during the month of May. These negative factors were partially offset by the launch of new programs during or subsequent to the second quarter of 2017, including the next generation GM Equinox/Terrain, and an increase in tooling sales of $9.1 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer.

Sales for the second quarter of 2018 in the Company's Europe operating segment increased by $33.1 million or 21.3% to $188.7 million from $155.6 million for the second quarter of 2017. The increase can be attributed to a $13.0 million increase in tooling sales; a $10.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2017; and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler.

Sales for the second quarter of 2018 in the Company's Rest of the World operating segment increased by $1.1 million or 3.2% to $33.8 million from $32.8 million in the second quarter of 2017. The increase was due to a $1.6 million increase in tooling sales, higher year-over-year production sales in the Company's operating facility in Brazil, and the launch of new aluminum structural components work for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $1.3 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2017 and lower year-over-year OEM production volumes on the Ford Mondeo vehicle platform in China.

Overall tooling sales increased by $25.5 million to $64.8 million for the second quarter of 2018 from $39.3 million for the second quarter of 2017.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

		Six months ended June 30, 2018		Six months ended June 30, 2017	$ Change	% Change
North America	$	1,443,002	$	1,592,039	(149,037)	(9.4%)
Europe		374,426		327,940	46,486	14.2%
Rest of the World		74,209		59,844	14,365	24.0%
Eliminations		(6,027)		(6,501)	474	(7.3%)
Total Sales	$	1,885,610	$	1,973,322	(87,712)	(4.4%)

The Company's consolidated sales for the six months ended June 30, 2018 decreased by $87.7 million or 4.4% to $1,885.6 million as compared to $1,973.3 million for the six months ended June 30, 2017. The total decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the six months ended June 30, 2018 in the Company's North America operating segment decreased by $149.0 million or 9.4% to $1,443.0 million from $1,592.0 million for the six months ended June 30, 2017. The decrease was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2018 of approximately $57.0 million as compared to the corresponding period of 2017; lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chevrolet Malibu, GM pick-up truck line-up, and programs that ended production during or subsequent to the six months ended June 30, 2017 such as the previous version of the GM Equinox/Terrain; and overall lower year-over-year production volumes resulting from unplanned OEM shutdowns during the second quarter of 2018 because of a fire at an industry-wide supplier of magnesium components which disrupted the automotive supply chain and, as a result, production levels of various vehicle platforms at Ford, FCA, GM, Daimler and BMW for a period of time during the month of May. These negative factors were partially offset by the launch of new programs during or subsequent to the six months ended June 30, 2017, including the next generation GM Equinox/Terrain, and an increase in tooling sales of $14.5 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the six months ended June 30, 2018 in the Company's Europe operating segment increased by $46.5 million or 14.2% to $374.4 million from $327.9 million for the six months ended June 30, 2017. The increase can be attributed to 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, 2018 of $24.7 million as compared to the corresponding period of 2017; a $7.8 million increase in tooling sales; and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler.

Sales for the six months ended June 30, 2018 in the Company's Rest of the World operating segment increased by $14.4 million or 24.0% to $74.2 million from $59.8 million for the six months ended June 30, 2017. The increase was due to a $9.0 million increase in tooling sales, higher year-over-year production sales in the Company's operating facility in Brazil, and the launch of new aluminum structural components work of Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $1.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2017 and lower year-over-year OEM production volumes on the Ford Mondeo vehicle platform in China.

Overall tooling sales increased by $32.5 million to $136.0 million for the six months ended June 30, 2018 from $103.5 million for the six months ended June 30, 2017.

GROSS MARGIN

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

	Three months ended June 30, 2018	Three months ended June 30, 2017	$ Change	% Change
Gross margin	$ 150,035	$ 128,926	21,109	16.4%
% of Sales	16.3%	13.3%		

The gross margin percentage for the second quarter of 2018 of 16.3% increased as a percentage of sales by 3.0% as compared to the gross margin percentage for the second quarter of 2017 of 13.3%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; and an increase in tooling sales which typically earn low margins for the Company.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

	Six months ended June 30, 2018	Six months ended June 30, 2017	$ Change	% Change
Gross margin	$ 294,464	$ 247,141	47,323	19.1%
% of Sales	15.6%	12.5%		

The gross margin percentage for the six months ended June 30, 2018 of 15.6% increased as a percentage of sales by 3.1% as compared to the gross margin percentage for the six months ended June 30, 2017 of 12.5%. Consistent with the year-over-year increase in the second quarter of 2018 as explained above, the increase in gross margin for the six months ended June 30, 2018, as a percentage of sales, was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; and an increase in tooling sales which typically earn low margins for the Company.

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

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

	Three months ended June 30, 2018	Three months ended June 30, 2017	$ Change	% Change
Selling, general & administrative	$ 58,520	$ 52,539	5,981	11.4%
% of Sales	6.3%	5.4%		

SG&A expense for the second quarter of 2018 increased by $6.0 million to $58.5 million as compared to $52.5 million for the second quarter of 2017. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, higher year-over-year incentive compensation based on the performance of the business, and higher year-over-year leasing costs as a result of the sale-leaseback transactions completed in 2017; partially offset by lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

	Six months ended June 30, 2018	Six months ended June 30, 2017	$ Change	% Change
Selling, general & administrative	$ 114,862	$ 105,138	9,724	9.2%
% of Sales	6.1%	5.3%		

SG&A expense for the six months ended June 30, 2018 increased by $9.7 million to $114.9 million as compared to $105.1 million for the six months ended June 30, 2017. Consistent with the year-over-year increase in the second quarter of 2018 as explained above, the increase for the six months ended June 30, 2018 can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, higher year-over-year incentive compensation based on the performance of the business, and higher year-over-year leasing costs as a result of the sale-leaseback transactions completed in 2017; partially offset by lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil.

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

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

	Three months ended June 30, 2018	Three months ended June 30, 2017	$ Change	% Change
Depreciation of PP&E (production)	$ 37,885	$ 35,307	2,578	7.3%
Depreciation of PP&E (non-production)	2,615	2,412	203	8.4%
Amortization of customer contracts and relationships	538	540	(2)	(0.4%)
Amortization of development costs	2,795	3,450	(655)	(19.0%)
Total depreciation and amortization	$ 43,833	$ 41,709	2,124	5.1%

Total depreciation and amortization expense for the second quarter of 2018 increased by $2.1 million to $43.8 million as compared to $41.7 million for the second quarter of 2017. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base connected to both new and replacement business that commenced during or subsequent to the second quarter of 2017.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the second quarter of 2017 and new programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased year–over–over to 4.1% for the second quarter of 2018 from 3.6% for the second quarter of 2017 due to lower year-over-year sales as previously discussed, and recent investments put into production.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

		Six months ended June 30, 2018		Six months ended June 30, 2017	$ Change	% Change
Depreciation of PP&E (production)	$	73,497	$	67,857	5,640	8.3%
Depreciation of PP&E (non-production)		5,061		4,671	390	8.3%
Amortization of customer contracts and relationships		1,068		1,080	(12)	(1.1%)
Amortization of development costs		5,742		6,646	(904)	(13.6%)
Total depreciation and amortization	$	85,368	$	80,254	5,114	6.4%

Total depreciation and amortization expense for the six months ended June 30, 2018 increased by $5.1 million to $85.4 million as compared to $80.3 million for the six months ended June 30, 2017. Consistent with the year-over-year increase in the second quarter of 2018 as explained above, the increase in total depreciation and amortization expense for the six months ended June 30, 2018 was primarily due to an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the six months ended June 30, 2017.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 3.9% for the six months ended June 30, 2018 from 3.4% for the six months ended June 30, 2017 due to lower year-over-year sales as previously discussed, and recent investments put into production.

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

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

TABLE A

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

	For the three months ended June 30, 2018 (a)	For the three months ended June 30, 2017 (b)	(a)–(b) Change
NET INCOME (A)	**$55,727**	**$47,346**	**$8,381**
Add Back – Unusual and Other Items:			
Unrealized gain on derivative instruments (2)	(229)	–	(229)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**($229)**	**–**	**($229)**
Tax impact of above items	29	–	29
TOTAL UNUSUAL AND OTHER ITEMS – AFTER TAX (B)	**($200)**	**–**	**($200)**
ADJUSTED NET INCOME (A + B)	**$55,527**	**$47,346**	**$8,181**
Number of Shares Outstanding – Basic (‘000)	86,814	86,512	
Adjusted Basic Net Earnings Per Share	$0.64	$0.55	
Number of Shares Outstanding – Diluted (‘000)	87,426	86,786	
Adjusted Diluted Net Earnings Per Share	$0.64	$0.55	

TABLE B

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

	For the six months ended June 30, 2018 (a)	For the six months ended June 30, 2017 (b)	(a)–(b) Change
NET INCOME (A)	**$111,686**	**$90,948**	**$20,738**
Add Back – Unusual and Other Items:			
Gain on sale of land and building (1)	–	(5,698)	5,698
Unrealized loss on derivative instruments (2)	538	–	538
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$538**	**($5,698)**	**$6,236**
Tax impact of above items	(67)	827	(894)
TOTAL UNUSUAL AND OTHER ITEMS – AFTER TAX (B)	**$471**	**($4,871)**	**$5,342**
ADJUSTED NET INCOME (A + B)	**$112,157**	**$86,077**	**$26,080**
Number of Shares Outstanding – Basic ('000)	86,780	86,502	
Adjusted Basic Net Earnings Per Share	$1.29	$1.00	
Number of Shares Outstanding – Diluted ('000)	87,364	86,714	
Adjusted Diluted Net Earnings Per Share	$1.28	$0.99	

(1) Gain on sale of land and building

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

(2) Unrealized gain on derivative instruments

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering (the investment is further described in note 6 of the interim consolidated financial statements and later on in this MD&A under the section "Investments"). As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million 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 with the change in fair value recorded through profit or loss. As at June 30, 2018, the warrants had a fair value of $3.6 million. Based on the fair value of the warrants as at June 30, 2018, an unrealized gain of $0.2 million was recognized in the second quarter of 2018 and an unrealized loss of $0.5 million was recognized for the six months ended June 30, 2018, recorded in other finance income (expense) and added back for Adjusted Net Income purposes.

NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

		Three months ended June 30, 2018		Three months ended June 30, 2017	$ Change	% Change
Net Income	$	55,727	$	47,346	8,381	17.7%
Adjusted Net Income	$	55,527	$	47,346	8,181	17.3%
Net Earnings per Share						
Basic and Diluted	$	0.64	$	0.55		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.64	$	0.55		

Net Income, before adjustments, for the second quarter of 2018 increased by $8.4 million to $55.7 million from $47.3 million for the second quarter of 2017 largely as a result of the year-over-year increase in the Company's gross margin as previously discussed. Excluding the unusual and other item recognized during the second quarter of 2018 as explained in Table A under "Adjustments to Net Income", net income for the second quarter of 2018 increased to $55.5 million or $0.64 per share, on a basic and diluted basis, from $47.3 million or $0.55 per share, on a basic and diluted basis, for the second quarter of 2017.

Adjusted Net Income for the second quarter of 2018, as compared to the second quarter of 2017, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or a subsequent to the second quarter of 2017.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's bank debt and equipment loans as a result of increased borrowing rates;
- a net foreign exchange loss of $1.3 million for the second quarter of 2018; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.5% for the second quarter of 2018 compared to 23.0% for the second quarter of 2017).

Three months ended June 30, 2018 actual to guidance comparison:

On May 3, 2018, the Company provided the following guidance for the second quarter of 2018:

		Guidance		Actual
Production sales (in millions)	$	860 – 900	$	857
Adjusted Net Earnings per Share				
Basic and Diluted	$	0.62 – 0.66	$	0.64

For the second quarter of 2018, while Adjusted Net Earnings per Share of $0.64 was within the range of published guidance, production sales of $857 million came in slightly below the published sales guidance range due to lower than expected production volumes on specific light-vehicle platforms including the Ford Escape, Ford Fusion and certain Jaguar Landrover platforms in Europe; and unplanned OEM shutdowns during the quarter because of a fire at an industry-wide supplier of magnesium components which disrupted the automotive supply chain and, as a result, production levels of various vehicle platforms at Ford, FCA, GM, Daimler and BMW for a period of time during the month of May.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

		Six months ended June 30, 2018		Six months ended June 30, 2017	$ Change	% Change
Net Income	$	111,686	$	90,948	20,738	22.8%
Adjusted Net Income	$	112,157	$	86,077	26,080	30.3%
Net Earnings per Share						
Basic	$	1.29	$	1.05		
Diluted	$	1.28	$	1.05		
Adjusted Net Earnings per Share						
Basic	$	1.29	$	1.00		
Diluted	$	1.28	$	0.99		

Net Income, before adjustments, for the six months ended June 30, 2018 increased by $20.7 million to $111.7 million from $90.9 million for the six months ended June 30, 2017 largely as a result of the year-over-year increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the six months ended June 30, 2018 and 2017 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the six months ended June 30, 2018 increased to $112.2 million or $1.29 per share, on a basic basis, and $1.28 on a diluted basis, from $86.1 million or $1.00 per share, on a basic basis, and $0.99 per share, on a diluted basis, for the six months ended June 30, 2017.

Adjusted Net Income for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2017; and
- a net foreign exchange gain of $1.4 million for the six months ended June 30, 2018 compared to a net foreign exchange gain of $0.6 million for the six months ended June 30, 2017.

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's bank debt and equipment loans as a result of increased borrowing rates; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.3% for the six months ended June 30, 2018 compared to 23.7% for the six months ended June 30, 2017).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended June 30, 2018 to three months ended June 30, 2017 comparison

		Three months ended June 30, 2018		Three months ended June 30, 2017	$ Change	% Change
Additions to PP&E	$	69,574	$	45,091	24,483	54.3%

Additions to PP&E increased by $24.5 million to $69.6 million or 7.5% of sales in the second quarter of 2018 from $45.1 million or 4.6% of sales in the second quarter of 2017 due in large part to the timing of expenditures. The Company continues to make investments in the business, including in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

	Six months ended June 30, 2018	Six months ended June 30, 2017	$ Change	% Change
Additions to PP&E	$ 119,911	$ 111,732	8,179	7.3%

Additions to PP&E increased by $8.2 million year-over-year to $119.9 million or 6.4% of sales for the six months ended June 30, 2018 compared to $111.7 million or 5.7% of sales for the six months ended June 30, 2017 due generally to the timing of expenditures. As explained above, the Company continues to make investments in the business, including in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

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, 2018 to three months ended June 30, 2017 comparison

	SALES		OPERATING INCOME (LOSS)	
	Three months ended June 30, 2018	Three months ended June 30, 2017	Three months ended June 30, 2018	Three months ended June 30, 2017
North America	$ 701,847	$ 789,055	$ 67,159	$ 60,358
Europe	188,703	155,620	14,747	9,279
Rest of the World	33,828	32,767	(231)	(2,679)
Eliminations	(2,668)	(4,670)	-	-
Adjusted Operating Income	-	-	81,675	66,958
Unusual and Other Items*	-	-	-	-
Total	$ 921,710	$ 972,772	$ 81,675	$ 66,958

North America

Adjusted Operating Income in North America increased by $6.8 million to $67.2 million or 9.6% of sales for the second quarter of 2018 from $60.4 million or 7.6% of sales for the second quarter of 2017 despite lower sales as previously discussed. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2017; partially offset by operational inefficiencies and other costs at certain other facilities.

Europe

Adjusted Operating Income in Europe increased by $5.4 million to $14.7 million or 7.8% of sales for the second quarter of 2018 from $9.3 million or 6.0% of sales for the second quarter of 2017 due in large part to incremental contribution margin from a $33.1 million year-over-year increase in sales, partially offset by upfront costs incurred in the Company's German operations in preparation of upcoming programs and related to new business in the process of being launched. As noted previously, the year-over-year increase in sales can be attributed to a $13.0 million increase in tooling sales; a $10.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2017; and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler.

Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year on slightly higher year-over-year sales, as previously discussed, and lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil; partially offset by upfront costs incurred in the Company's China operations in preparation of upcoming new programs and related to new business in the process of being launched.

Six months ended June 30, 2018 to six months ended June 30, 2017 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2018	**Six months ended June 30, 2017**	**Six months ended June 30, 2018**	**Six months ended June 30, 2017**
North America	$ 1,443,002	$ 1,592,039	$ 128,627	$ 107,813
Europe	374,426	327,940	30,582	21,858
Rest of the World	74,209	59,844	907	(6,378)
Eliminations	(6,027)	(6,501)	-	-
Adjusted Operating Income	-	-	160,116	123,293
Unusual and Other Items*	-	-	-	5,698
Total	$ 1,885,610	$ 1,973,322	$ 160,116	$ 128,991

**Operating income for the operating segments has been adjusted for unusual and other items. The $5.7 million of unusual and other items for the six months ended June 30, 2017 was recognized in North America. The unusual and other items noted are all fully explained in the "Adjustments to Net Income" section of this MD&A.*

North America

Adjusted Operating Income in North America increased by $20.8 million to $128.6 million or 8.9% of sales for the six months ended June 30, 2018 from $107.8 million or 6.8% of sales for the six months ended June 30, 2017 despite lower sales as previously discussed. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2017; partially offset by operational inefficiencies and other costs at certain facilities.

Europe

Adjusted Operating Income in Europe increased by $8.7 million to $30.6 million or 8.2% of sales for the six months ended June 30, 2018 from $21.9 million or 6.7% of sales for the six months ended June 30, 2017 due to incremental margin contribution from a $46.5 million year-over-year increase in sales, partially offset by upfront costs incurred in the Company's German operations in preparation of upcoming new programs and related to new business in the process of being launched. As noted previously, the year-over-year increase in sales can be attributed to 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, 2018 of $24.7 million as compared to the corresponding period of 2017; a $7.8 million increase in tooling sales; and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler

Rest of the World

The operating results for the Rest of the World operating segment increased year-over-year on higher year-over-year sales as previously discussed and lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil; partially offset by upfront costs incurred in the Company's China operations in preparation of upcoming new programs and related to new business in the process of being launched.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	921,710	963,900	878,642	838,535	972,772	1,000,550	990,407	914,725
Gross Margin	150,035	144,429	124,042	113,418	128,926	118,215	104,312	99,698
Net Income for the period	55,727	55,959	32,366	36,022	47,411	43,467	30,630	28,827
Net Income attributable to equity holders of the Company	55,727	55,959	32,366	36,229	47,346	43,602	30,753	29,098
Adjusted Net Income attributable to equity holders of the Company*	55,527	56,630	43,179	36,263	47,346	38,731	30,753	29,098
Basic Net Earnings per Share	0.64	0.65	0.37	0.42	0.55	0.50	0.36	0.34
Diluted Net Earnings per Share	0.64	0.64	0.37	0.42	0.55	0.50	0.36	0.34
Adjusted Basic and Diluted Net Earnings per Share*	0.64	0.65	0.50	0.42	0.55	0.45	0.36	0.34

***Non-IFRS Measures**

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid and continues to strengthen, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at June 30, 2018, the Company had total equity of $1,104.5 million (December 31, 2017 – $958.5 million). As at June 30, 2018, the Company's ratio of current assets to current liabilities was 1.3:1 (December 31, 2017 – 1.3:1). The Company's current working capital level of $294.6 million at June 30, 2018, up from $226.9 million at December 31, 2017, 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 based financing.

CASH FLOWS

	Three months ended June 30, 2018	Three months ended June 30, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 125,712	$ 112,372	13,340	11.9%
Change in non-cash working capital items	(8,911)	(27,570)	18,659	(67.7%)
	116,801	84,802	31,999	37.7%
Interest paid	(7,311)	(4,844)	(2,467)	50.9%
Income taxes paid	(30,900)	(9,205)	(21,695)	235.7%
Cash provided by operating activities	78,590	70,753	7,837	11.1%
Cash used in financing activities	(6,356)	(10,222)	3,866	37.8%
Cash used in investing activities	(80,862)	(58,644)	(22,218)	(37.9%)
Effect of foreign exchange rate changes on cash and cash equivalents	2,491	(793)	3,284	(414.1%)
Increase (decrease) in cash and cash equivalents	$ (6,137)	$ 1,094	(7,231)	(661.0%)

Cash provided by operating activities during the second quarter of 2018 was $78.6 million, compared to cash provided by operating activities of $70.8 million in the corresponding period of 2017. The components for the second quarter of 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $125.7 million;
- working capital items use of cash of $8.9 million comprised of a decrease in trade, other payables and provisions of $46.6 million, an increase in inventories of $22.8 million and an increase in prepaid expenses and deposits of $0.6 million; partially offset by a decrease in trade and other receivables of $61.1 million;
- interest paid (excluding capitalized interest) of $7.3 million; and
- income taxes paid of $30.9 million.

Cash used in financing activities during the second quarter of 2018 was $6.4 million, compared to cash used in financing activities of $10.2 million in the corresponding period in 2017, as a result of net repayments on the Company's long-term debt of $4.8 million and $2.6 million in dividends paid; partially offset by the exercise of employee stock options of $1.1 million.

Cash used in investing activities during the second quarter of 2018 was $80.9 million, compared to $58.6 million in the corresponding period in 2017. The components for the second quarter of 2018 primarily include the following:

- cash additions to PP&E of $79.8 million;
- capitalized development costs relating to upcoming new program launches of $3.5 million; partially offset by
- the upfront recovery of development costs incurred of $2.3; and
- proceeds from the disposal of PP&E of $0.2 million.

Taking into account the opening cash balance of $81.4 million at the beginning of the second quarter of 2018, and the activities described above, the cash and cash equivalents balance at June 30, 2018 was $75.3 million.

	Six months ended June 30, 2018	Six months ended June 30, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 248,119	$ 206,626	41,493	20.1%
Change in non-cash working capital items	(20,915)	13,786	(34,701)	(251.7%)
	227,204	220,412	6,792	3.1%
Interest paid	(14,244)	(9,964)	(4,280)	43.0%
Income taxes paid	(62,578)	(32,657)	(29,921)	91.6%
Cash provided by operating activities	150,382	177,791	(27,409)	(15.4%)
Cash provided by (used in) financing activities	5,452	(39,570)	45,022	113.8%
Cash used in investing activities	(155,217)	(139,176)	(16,041)	(11.5%)
Effect of foreign exchange rate changes on cash and cash equivalents	3,448	(1,067)	4,515	423.1%
Increase (decrease) in cash and cash equivalents	$ 4,065	$ (2,022)	6,087	301.0%

Cash provided by operating activities during the six months ended June 30, 2018 was $150.4 million, compared to cash provided by operating activities of $177.8 million in the corresponding period of 2017. The components for the six months ended June 30, 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $248.1 million;
- working capital items use of cash of $20.9 million comprised of an increase in trade and other receivables of $11.6 million, an increase in inventories of $59.2 million, an increase in prepaid expenses and deposits of $3.7 million; partially offset by an increase in trade, other payables and provisions of $53.6 million;
- interest paid (excluding capitalized interest) of $14.2 million; and
- income taxes paid of $62.6 million.

Cash provided by financing activities during the six months ended June 30, 2018 was $5.5 million, compared to cash used in financing activities of $39.6 million in the corresponding period in 2017, as a result of a $9.6 million net increase in long-term debt and $1.1 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, 2018 was $155.2 million, compared to $139.2 million in the corresponding period in 2017. The components for the six months ended June 30, 2018 primarily include the following:

- cash additions to PP&E of $151.3 million;
- capitalized development costs relating to upcoming new program launches of $6.5 million;
- an investment in NanoXplore Inc. (as described in note 6 of the interim consolidated financial statements for the three and six months ended June 30, 2018) of $0.7 million; partially offset by
- the upfront recovery of development costs incurred of $2.3 million; and
- proceeds from the disposal of PP&E of $1.0 million.

Taking into account the opening cash balance of $71.2 million at the beginning of 2018, and the activities described above, the cash and cash equivalents balance at June 30, 2018 was $75.3 million.

Financing

Subsequent to June 30, 2018, 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, now with 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 June 30, 2018, the Company had drawn $233.0 million (December 31, 2017 – $233.0 million) on the Canadian revolving credit line and US$271.0 million (December 31, 2017 – $256.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) increased by $22.0 million from $582.8 million at December 31, 2017 to $604.8 million at June 30, 2018. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.36x at the end of the second quarter of 2018, from 1.45x at the end of the fourth quarter of 2017 and 1.68x at the end of the second quarter of 2017.

The Company was in compliance with its debt covenants as at June 30, 2018.

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 at fixed annual interest rates of 3.06%, 4.34% and 4.93%.

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 were $0.12 per share, 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.

Early this year, in view of the Company's financial performance, and its future outlook and cash needs, the Board decided to increase the annual dividends by 50% to $0.18 per share, to be paid in four quarterly installments of $0.045 per share, commencing after the release of the first quarter results of 2018. The first such increased dividend was paid on July 15, 2018. The Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2018 the amount of off-balance sheet program financing was $43.4 million (December 31, 2017– $75.2 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.

TRENDS, RISKS AND UNCERTAINTIES

The reader is referred to the detailed discussion on Industry Highlights and Trends and Risks and Uncertainties (including current negotiations involving NAFTA, steel and aluminum tariffs, potential U.S. tariffs on automobiles and automobile parts, and global trade issues on unassessed new tariffs resulting from trade negotiations or changes in government laws or regulations) as outlined in the Company's Annual Information Form dated March 1, 2018 and available through SEDAR at www.sedar.com which are incorporated herein by reference. These trends, 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 should they occur.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 8, 2018, the Company had 86,869,584 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 8, 2018, options to acquire 1,820,700 common shares were outstanding.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended June 30, 2018, 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, 2017.

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, 2018, the amount of the off balance sheet program financing was $43.4 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 foreign currency exchange rates. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

At June 30, 2018, the Company had committed to the following foreign exchange forward contracts:

Foreign exchange 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
Sell Canadian Dollars	$	40,000	1.3159	1
Buy Mexican Peso	$	6,226	20.8788	1

The aggregate value of these forward contracts as at June 30, 2018 was a pre-tax gain of $0.5 million and was recorded in trade and other receivables (December 31, 2017 – loss of $0.1 million recorded in trade and other payables).

Foreign exchange 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
Sell Canadian Dollars	$	69,600	1.2780	54

The aggregate value of these forward contracts as at June 30, 2018 was a pre-tax loss of $1.5 million and was recorded in trade and other payables (December 31, 2017 – nil).

INVESTMENTS

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering. 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.

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

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million though 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 purchase price of $0.7 million was allocated to the additional common shares and warrants acquired based on their relative fair values at the time of issuance resulting in $0.6 million being allocated to the common shares and $0.1 million to the warrants.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black–Scholes valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2018, the warrants had a fair value of $3.6 million. Based on the fair value of the warrants as at June 30, 2018, an unrealized gain of $0.2 million was recognized for the three months ended June 30, 2018, and an unrealized loss of $0.5 million was recognized for the six months ended June 30, 2018, recorded in other finance income (expense) in the interim consolidated statement of operations. The table below summarizes the assumptions used, on a weighted average basis, in valuing the warrants under the Black-Scholes valuation model during the six months ended June 30, 2018:

	2018 Acquisition	June 30, 2018
Expected volatility	66.87%	68.36%
Risk free interest rate	1.88%	1.91%
Expected life (years)	2	2

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 June 31, 2018 the common shares had a fair value of $11.2 million. Based on the fair value of the common shares as at June 30, 2018, an unrealized gain of $0.5 million ($0.5 million net of tax) was recognized for the three months ended June 30, 2018, and an unrealized loss of $0.6 million ($0.5 million net of tax) was recognized for the six months ended June 30, 2018.

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.

RECENTLY ADOPTED AND APPLICABLE ACCOUNTING STANDARDS AND POLICIES (INCLUDING ANY CHANGES TO CRITICAL ACCOUNTING ESTIMATES)

The Company has 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 following should be read as a modification to the significant accounting policies in note 2(j) of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition Policy
Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes sales primarily 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.

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 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.

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

The following should be read as a modification to the significant accounting policies in note 2(c) and 2(g)(i) of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(a) 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 under IFRS 9 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 assets and derivative liabilities 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 (FVTOCI):
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 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.

(b) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward–looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward–looking information.
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. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(c) 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 FVTPL, 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 statement of operations.

(d) 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 quarter, 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 in a cash flow hedge. In a cash flow hedge, 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 until the hedged item affects net income. 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. These amounts will be recognized in earnings as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships.

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.

Recently issued accounting standards

The IASB issued the following amendments to existing 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. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company intends to adopt the new standard using the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings on the date of initial application without restating prior periods. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements and has begun collecting and cataloguing all existing leases in order to perform an assessment and develop a plan with respect to analyzing the impact of the new standard on existing leases. As such, the extent of the impact has not yet been determined.

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, investments in its business, management and monitoring of SG&A expenses, the financing of future capital expenditures, and ability to fund anticipated working capital needs, 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, 2017 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions, including current negotiations involving NAFTA, steel and aluminum tariffs, and potential U.S. tariffs on automobiles and automobile parts;
- 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 or tariffs on steel or aluminum, automobiles or automobile parts;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits

- impairment charges;
- cyber security threats; and
- dividends.

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