MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		June 30, 2019		December 31, 2018
ASSETS					
Cash and cash equivalents		$	90,140	$	70,162
Trade and other receivables	2		633,895		597,796
Inventories	3		476,046		492,759
Prepaid expenses and deposits			25,343		23,275
Income taxes recoverable			29,021		21,301
TOTAL CURRENT ASSETS			1,254,445		1,205,293
Property, plant and equipment	4		1,476,686		1,481,452
Right-of-use assets	5		204,996		-
Deferred income tax assets			139,032		145,354
Intangible assets	6		63,747		70,931
Investments	7		23,595		10,781
TOTAL NON-CURRENT ASSETS			1,908,056		1,708,518
TOTAL ASSETS		$	3,162,501	$	2,913,811
LIABILITIES					
Trade and other payables	9	$	818,697	$	862,699
Provisions	10		10,142		5,393
Income taxes payable			10,475		7,816
Current portion of long-term debt	11		14,529		16,804
Current portion of lease liabilities	12		28,053		-
TOTAL CURRENT LIABILITIES			881,896		892,712
Long-term debt	11		771,314		723,913
Lease liabilities	12		189,601		-
Pension and other post-retirement benefits			65,638		61,267
Deferred income tax liabilities			78,260		84,370
TOTAL NON-CURRENT LIABILITIES			1,104,813		869,550
TOTAL LIABILITIES			1,986,709		1,762,262
EQUITY					
Capital stock	13		681,451		680,157
Contributed surplus			42,272		42,016
Accumulated other comprehensive income			107,719		158,395
Retained earnings			344,350		270,981
TOTAL EQUITY			1,175,792		1,151,549
TOTAL LIABILITIES AND EQUITY		$	3,162,501	$	2,913,811

Subsequent event (note 7)

Contingencies (note 19)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

“Robert Wildeboer” Director

“Terry Lyons” Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

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

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
SALES		$ 948,533	$ 921,710	$ 1,971,694	$ 1,885,610
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(747,810)	(733,790)	(1,570,041)	(1,517,649)
Depreciation of property, plant and equipment and right-of-use assets (production)		(45,945)	(37,885)	(89,374)	(73,497)
Total cost of sales		(793,755)	(771,675)	(1,659,415)	(1,591,146)
GROSS MARGIN		154,778	150,035	312,279	294,464
Research and development costs		(8,784)	(6,463)	(18,073)	(13,147)
Selling, general and administrative		(57,785)	(58,520)	(118,643)	(114,862)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,892)	(2,615)	(7,357)	(5,061)
Amortization of customer contracts and relationships		(496)	(538)	(1,033)	(1,068)
Gain (loss) on disposal of property, plant and equipment		148	(224)	259	(210)
Impairment of assets	8	(18,502)	-	(18,502)	-
Restructuring costs	10	(8,165)	-	(8,165)	-
OPERATING INCOME		57,302	81,675	140,765	160,116
Share of loss of an associate	7	(512)	-	(512)	-
Finance expense (including interest on lease liabilities)	16	(9,944)	(6,907)	(19,740)	(13,408)
Other finance income (expense)	16	(1,082)	(976)	(1,096)	996
INCOME BEFORE INCOME TAXES		45,764	73,792	119,417	147,704
Income tax expense	14	(17,642)	(18,065)	(36,027)	(36,018)
NET INCOME FOR THE PERIOD		$ 28,122	$ 55,727	$ 83,390	$ 111,686
Basic earnings per share	15	$ 0.34	$ 0.64	$ 1.00	$ 1.29
Diluted earnings per share	15	$ 0.34	$ 0.64	$ 1.00	$ 1.28

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

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

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
NET INCOME FOR THE PERIOD	$ 28,122	$ 55,727	$ 83,390	$ 111,686
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	(21,885)	392	(49,923)	39,825
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain (loss) in fair value of financial instruments	1,482	(1,975)	3,520	(1,975)
Reclassification of loss to net income	422	29	793	29
Items that will not be reclassified to net income				
Change in fair value of investments	-	466	(776)	(539)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 7)	-	-	(4,314)	-
Share of other comprehensive income of an associate	24	-	24	-
Remeasurement of defined benefit plans	(5,509)	170	(4,424)	2,245
Other comprehensive income (loss), net of tax	(25,466)	(918)	(55,100)	39,585
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 2,656	$ 54,809	$ 28,290	$ 151,271

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
BALANCE AT DECEMBER 31, 2017	$ 713,425	$ 41,981	$ 94,268	$ 108,825	$ 958,499
Net income for the period	-	-	-	111,686	111,686
Compensation expense related to stock options	-	228	-	-	228
Dividends ($0.075 per share)	-	-	-	(6,577)	(6,577)
Exercise of employee stock options	1,476	(391)	-	-	1,085
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	2,245	2,245
Foreign currency translation differences	-	-	39,825	-	39,825
Change in fair value of investments	-	-	(539)	-	(539)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(1,975)	-	(1,975)
Reclassification of loss to net income	-	-	29	-	29
BALANCE AT JUNE 30, 2018	714,901	41,818	131,608	216,179	1,104,506
Net income for the period	-	-	-	74,197	74,197
Compensation expense related to stock options	-	423	-	-	423
Dividends ($0.09 per share)	-	-	-	(7,636)	(7,636)
Exercise of employee stock options	1,047	(225)	-	-	822
Repurchase of common shares	(17,699)	-	-	(7,814)	(25,513)
Estimated repurchase of common shares subsequent to year-end under an automatic share repurchase program with a broker	(18,092)	-	-	(5,779)	(23,871)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	1,834	1,834
Foreign currency translation differences	-	-	32,785	-	32,785
Change in fair value of investments	-	-	(2,328)	-	(2,328)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(4,061)	-	(4,061)
Reclassification of loss to net income	-	-	391	-	391
BALANCE AT DECEMBER 31, 2018	680,157	42,016	158,395	270,981	1,151,549
Net income for the period	-	-	-	83,390	83,390
Compensation expense related to stock options	-	628	-	-	628
Dividends ($0.09 per share)	-	-	-	(7,447)	(7,447)
Exercise of employee stock options	1,294	(372)	-	-	922
Repurchase of common shares	-	-	-	(2,464)	(2,464)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	(4,424)	(4,424)
Foreign currency translation differences	-	-	(49,923)	-	(49,923)
Change in fair value of investments	-	-	(776)	-	(776)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 7)	-	-	(4,314)	4,314	-
Share of other comprehensive income of an associate	-	-	24	-	24
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	3,520	-	3,520
Reclassification of loss to net income	-	-	793	-	793
BALANCE AT JUNE 30, 2019	$ 681,451	$ 42,272	$ 107,719	$ 344,350	$ 1,175,792

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

		Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
CASH PROVIDED BY (USED IN):					
OPERATING ACTIVITIES:					
Net Income for the period	$	28,122	$ 55,727	$ 83,390	$ 111,686
Adjustments for:					
Depreciation of property, plant and equipment and right-of-use assets		49,837	40,500	96,731	78,558
Amortization of customer contracts and relationships		496	538	1,033	1,068
Amortization of development costs		3,555	2,795	6,683	5,742
Impairment of assets (note 8)		18,502	-	18,502	-
Unrealized loss (gain) on foreign exchange forward contracts		(842)	839	(259)	(465)
Unrealized loss (gain) on warrants (note 7)		229	(229)	810	538
Finance expense (including interest on lease liabilities)		9,944	6,907	19,740	13,408
Income tax expense		17,642	18,065	36,027	36,018
Loss (gain) on disposal of property, plant and equipment		(148)	224	(259)	210
Deferred and restricted share units expense (benefit)		(204)	1,078	1,928	1,380
Stock options expense		314	54	628	228
Share of loss of an associate		512	-	512	-
Pension and other post-retirement benefits expense		1,186	1,195	2,209	2,372
Contributions made to pension and other post-retirement benefits		(1,375)	(1,981)	(2,633)	(2,624)
		127,770	125,712	265,042	248,119
Changes in non-cash working capital items:					
Trade and other receivables		58,046	61,120	(54,941)	(11,566)
Inventories		(17,354)	(22,823)	(1,287)	(59,238)
Prepaid expenses and deposits		87	(613)	(2,865)	(3,692)
Trade, other payables and provisions		(16,602)	(46,595)	45,173	53,581
		151,947	116,801	251,122	227,204
Interest paid (including interest on lease liabilities; excluding capitalized interest)		(11,585)	(7,311)	(22,169)	(14,244)
Income taxes paid		(11,822)	(30,900)	(40,287)	(62,578)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	128,540	$ 78,590	$ 188,666	$ 150,382
FINANCING ACTIVITIES:					
Increase in long-term debt		3,307	36,886	84,727	56,575
Repayment of long-term debt		(19,301)	(41,724)	(23,382)	(47,003)
Principal payments of lease liabilities		(6,836)	-	(14,111)	-
Dividends paid		(3,724)	(2,603)	(7,541)	(5,205)
Exercise of employee stock options		-	1,085	922	1,085
Repurchase of common shares		-	-	(26,335)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$	(26,554)	$ (6,356)	$ 14,280	$ 5,452
INVESTING ACTIVITIES:					
Purchase of property, plant and equipment*		(83,028)	(79,849)	(160,446)	(151,302)
Capitalized development costs		(3,116)	(3,492)	(5,432)	(6,484)
Investment in NanoXplore Inc. (note 7)		-	-	(14,999)	(680)
Proceeds on disposal of property, plant and equipment		232	203	715	973
Upfront recovery of development costs incurred		-	2,276	-	2,276
NET CASH USED IN INVESTING ACTIVITIES	$	(85,912)	$ (80,862)	$ (180,162)	$ (155,217)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,381)	2,491	(2,806)	3,448
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		13,693	(6,137)	19,978	4,065
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		76,447	81,395	70,162	71,193
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	90,140	$ 75,258	$ 90,140	$ 75,258

*As at June 30, 2019, $18,776 (December 31, 2018 - $45,341) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems.

1. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2018, except as outlined in note 1(d).

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2018.

(c) Presentation currency

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

(d) Recently adopted and applicable accounting standards and policies

(i) <u>IFRS 16, Leases ("IFRS 16")</u>

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or short term in nature. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on its interim condensed consolidated balance sheet, as well as a decrease in operating rent expense, and increases in finance and depreciation expenses, as recognized in the interim condensed consolidated statement of operations. The standard did not have a significant impact on the Company's overall consolidated operating results.

The Company adopted IFRS 16, effective January 1, 2019, under the modified retrospective approach. Comparatives for 2018 were not restated. At transition, the Company elected to use the practical expedient available under the standard that allows lease assessments made under IAS 17 and IFRIC 4 to be used for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified after January 1, 2019.

Upon initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rates as at January 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.2%. For leases previously classified as operating leases under IAS 17, the Company measured right-of-use assets equal to the corresponding lease liabilities adjusted for any accrued payments related to that lease. For leases previously classified as finance leases, the Company measured right-of-use assets and lease liabilities at the carrying amounts of the finance lease assets and liabilities immediately before the date of initial application.

As such, on January 1, 2019, the Company recorded lease liabilities of $228,623 and right-of-use assets of $223,786, net of accrued liabilities related to the leases of $4,837, recognized in the interim condensed consolidated balance sheet immediately before the date of initial application, with no net impact on retained earnings.

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

The Company elected to use the following practical expedients upon initial application in accordance with the provisions of IFRS 16:

(a) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
(b) Reliance on the Company's assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application;
(c) Accounting for all leases with a lease term that ends within 12 months of initial application in the same way as short-term leases;
(d) Exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application; and
(e) Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options.

On transition, the Company elected to use the recognition exemptions on short-term leases or low-value leases, however, in the future, may choose to elect the recognition exemptions on a class-by-class and lease-by-lease basis.

For leases of land and buildings, the Company elected to separate fixed non-lease components from lease components and account for each separately. For leases of manufacturing equipment and other assets, the Company elected to not separate fixed non-lease components from lease components and instead account for both as a single lease component.

The following table reconciles the Company's operating lease commitments as at December 31, 2018, as previously disclosed in the Company's annual audited consolidated financial statements for the year-ended December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

Operating lease commitments at December 31, 2018	$	240,052
Operating lease commitments discounted using the related incremental borrowing rates as of January 1, 2019	$	198,282
Finance lease liabilities recognized as of December 31, 2018	$	(463)
Recognition exemption for:		
Short-term leases		(4,150)
Low value leases		(70)
Extension and termination options reasonably certain to be exercised		46,570
Leases starting after January 1, 2019		(11,546)
Lease liabilities recognized as of January 1, 2019	$	228,623

New Lease Accounting Policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the contract: involves the use of an identified asset; provides the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and provides the right to direct the use of the asset.

This policy is applied to contracts entered into, or modified on or after January 1, 2019.

A right-of-use asset and lease liability are recorded on the date that the underlying asset is available for use, representing the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that are tied to an index or rate defined in the contract;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably likely to exercise; and
- lease payments under an optional extension if the Company is reasonably certain to exercise the extension option, and early termination penalties required under a termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, consisting of:

- the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term consists of the non-cancellable period of the lease; periods covered by options to extend the lease, when the Company is reasonably certain to exercise the option to extend; and periods covered by options to terminate the lease, when the Company is reasonably certain not to exercise the option. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability as described above.

Short term and low-value leases
The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases (i.e., those leases that have a lease term of twelve months or less) and leases with assets of low value (i.e., those assets with a fair market value of less than $5,000 US). The expenses associated with such leases are recognized in the interim condensed consolidated statement of operations on a straight-line basis over the lease term.

Variable lease payments
Certain leases contain provisions that result in changes to lease payments over the term in relation to market indices quoted in the contract. The Company reassesses the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payment.

Certain leases require the Company to make payments that relate to property taxes, insurance, or other non-rental costs. These costs are typically variable and are not included in the calculation of the right-of-use asset or lease liability, but are recorded as an expense in cost of sales in the interim condensed consolidated statement of operations in the period in which they are incurred.

(ii) Investments in Associates and Joint Ventures

Associates are entities over which the Company has significant influence, but not control, on financial and operating policy decisions. Significant influence is assumed when the Company holds 20% to 50% of the voting power of the investee, unless qualitative factors overcome this presumption. Similarly, significant influence is presumed not to exist when the Company holds less than 20% of the voting power of the investee, unless qualitative factors overcome this presumption.

Entities over which the Company has significant influence are accounted for under the equity method. The investment is initially recognized at cost. The carrying amount is subsequently increased or decreased to recognize the Company's share of profits or losses of the associate after the date of acquisition or when significant influence begins. The Company's share of profits or losses is recognized in the interim condensed consolidated statement of operations, and its share of other comprehensive income or loss of the associate is included in other comprehensive income or loss.

Unrealized gains on transactions between the Company and the associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in the level of the Company's equity interest in an associate are recognized in the interim condensed consolidated statements of operations.

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

The amounts included in the financial statements of the associate are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

At the end of each reporting period, the Company assesses whether there is any objective evidence that its investment is impaired. If impaired, the carrying value of the Company's share of the underlying assets of the associate is written down to its estimated recoverable amount and charged to the statement of operations.

The Company has an equity interest in one associate, NanoXplore Inc., as further described in note 7.

2. TRADE AND OTHER RECEIVABLES

	June 30, 2019	December 31, 2018
Trade receivables	$ 621,204	$ 585,790
Other receivables	12,432	11,940
Foreign exchange forward contracts not accounted for as hedges (note 18(d))	259	66
	$ 633,895	$ 597,796

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 18.

3. INVENTORIES

	June 30, 2019	December 31, 2018
Raw materials	$ 159,799	$ 173,123
Work in progress	38,942	39,591
Finished goods	30,828	37,761
Tooling work in progress and other inventory	246,477	242,284
	$ 476,046	$ 492,759

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 130,099	$ (23,350)	$ 106,749	$ 130,106	$ (22,546)	$ 107,560
Leasehold improvements	73,802	(43,712)	30,090	70,079	(41,238)	28,841
Manufacturing equipment	2,092,858	(1,119,063)	973,795	2,009,183	(1,086,324)	922,859
Tooling and fixtures	38,236	(32,574)	5,662	39,551	(33,091)	6,460
Other assets	65,616	(34,571)	31,045	63,807	(31,294)	32,513
Construction in progress	329,345	-	329,345	383,219	-	383,219
	$ 2,729,956	$ (1,253,270)	$ 1,476,686	$ 2,695,945	$ (1,214,493)	$ 1,481,452

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

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress	Total
Net as of December 31, 2017	$ 100,997	$ 26,203	$ 849,350	$ 7,475	$ 28,404	$ 270,195	$ 1,282,624
Additions	8	140	-	-	66	290,299	290,513
Disposals	-	(5)	(1,326)	-	(25)	(683)	(2,039)
Depreciation	(4,026)	(4,220)	(146,798)	(1,773)	(6,481)	-	(163,298)
Impairment	-	-	(5,436)	-	-	-	(5,436)
Transfers from construction in progress	3,868	5,786	176,593	306	9,444	(195,997)	-
Foreign currency translation adjustment	6,713	937	50,476	452	1,105	19,405	79,088
Net as of December 31, 2018	107,560	28,841	922,859	6,460	32,513	383,219	1,481,452
Additions	-	-	-	-	-	133,881	133,881
Disposals	-	-	(449)	-	-	(7)	(456)
Depreciation	(1,966)	(2,267)	(72,659)	(587)	(3,568)	-	(81,047)
Impairment (note 8)	-	(1,116)	(4,038)	-	(732)	(1,140)	(7,026)
Reclassification to right-of-use assets	-	-	(445)	-	-	-	(445)
Transfers from construction in progress	4,994	5,396	160,658	-	3,720	(174,768)	-
Foreign currency translation adjustment	(3,839)	(764)	(32,131)	(211)	(888)	(11,840)	(49,673)
Net as of June 30, 2019	$ 106,749	$ 30,090	$ 973,795	$ 5,662	$ 31,045	$ 329,345	$ 1,476,686

5. RIGHT-OF-USE ASSETS

	June 30, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 204,032	$ (18,745)	$ 185,287
Leased manufacturing equipment	20,655	(2,776)	17,879
Leased other assets	2,397	(567)	1,830
	$ 227,084	$ (22,088)	$ 204,996

Movement in right-of-use assets is summarized as follows:

	Leased buildings	Leased manufacturing equipment	Leased other assets	Total
Net as of December 31, 2018	$ -	$ -	$ -	$ -
Initial recognition of right-of-use assets upon transition to IFRS 16 (note 1(d))	207,651	14,226	1,909	223,786
Reclassification from property, plant and equipment upon adoption of IFRS 16	-	445	-	445
Additions	-	6,109	416	6,525
Depreciation	(12,693)	(2,541)	(450)	(15,684)
Impairment (note 8)	(6,462)	-	(10)	(6,472)
Foreign currency translation adjustment	(3,209)	(360)	(35)	(3,604)
Net as of June 30, 2019	$ 185,287	$ 17,879	$ 1,830	$ 204,996

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

6. INTANGIBLE ASSETS

	June 30, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 61,784	$ (58,950)	$ 2,834	$ 62,497	$ (58,498)	$ 3,999
Development costs	157,961	(97,048)	60,913	160,008	(93,076)	66,932
	$ 219,745	$ (155,998)	$ 63,747	$ 222,505	$ (151,574)	$ 70,931

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2017	$ 5,920	$ 62,494	$ 68,414
Additions	-	14,171	14,171
Amortization	(2,140)	(11,342)	(13,482)
Upfront recovery of development costs incurred	-	(2,566)	(2,566)
Foreign currency translation adjustment	219	4,175	4,394
Net as of December 31, 2018	3,999	66,932	70,931
Additions	-	5,432	5,432
Amortization	(1,033)	(6,683)	(7,716)
Impairment (note 8)	-	(2,487)	(2,487)
Foreign currency translation adjustment	(132)	(2,281)	(2,413)
Net as of June 30, 2019	$ 2,834	$ 60,913	$ 63,747

7. INVESTMENTS

	June 30, 2019	December 31, 2018
Investment in common shares of NanoXplore Inc.	$ 22,197	$ 8,572
Warrants in NanoXplore Inc.	1,398	2,209
	$ 23,595	$ 10,781

NanoXplore Inc. (“NanoXplore”) is a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. It is 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.

As at December 31, 2018, the Company held 5,911,800 common shares and 2,955,900 warrants in NanoXplore. On January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of $14,999 through a private placement offering, increasing its holdings in NanoXplore to 17,449,800 common shares, representing a 16% equity interest in the company. Prior to January 11, 2019, the Company’s investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income. Effective January 11, 2019, the Company’s investment in NanoXplore is now being accounted for using the equity method.

	Investment in common shares of NanoXplore
Opening cost base of investment after January 11, 2019 private placement	$ 22,685
Share of loss for the period	(512)
Share of other comprehensive income for the period	24
Net balance as of June 30, 2019	$ 22,197

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

The Company applies equity accounting to its investment based on NanoXplore's most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date which represents a reasonable estimate of the change in the Company's interest.

Upon transition to the equity accounting method of the Company's investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of $4,314 from other comprehensive income to retained earnings.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton option valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2019, the warrants had a fair value of $1,398. Based on the fair value of the warrants as at June 30, 2019, an unrealized loss of $229 was recognized for the three months ended June 30, 2019 (2018 - unrealized gain of $229) and an unrealized loss of $810 was recognized for the six months ended June 30, 2019 (2018 - unrealized loss of $538), recorded in other finance income (expense) in the interim condensed consolidated statement of operations.

Subsequent to the quarter-end, on July 31, 2019, the Company exercised 2,750,000 of the outstanding warrants. The warrants had an exercise price of $0.70 per share for total consideration paid of $1,925.

8. IMPAIRMENT OF ASSETS

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling $18,502 related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives during the quarter. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration where specific assets can be transferred to other facilities.

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Property, plant and equipment	$ (7,026)	$ -	$ (7,026)	$ -
Right-of-use assets	(6,472)	-	(6,472)	-
Intangible Assets - Development costs	(2,487)	-	(2,487)	-
Inventories	(2,517)	-	(2,517)	-
Total Impairment	$ (18,502)	$ -	$ (18,502)	$ -

9. TRADE AND OTHER PAYABLES

	June 30, 2019	December 31, 2018
Trade accounts payable and accrued liabilities	$ 817,487	$ 834,732
Estimated share repurchase liability	-	23,871
Foreign exchange forward contracts accounted for as hedges (note 18(d))	1,210	4,096
	$ 818,697	$ 862,699

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

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

10. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2017	$ 1,116	$ 3,932	$ 5,048
Net additions	2,073	2,046	4,119
Amounts used during the period	(1,116)	(2,453)	(3,569)
Foreign currency translation adjustment	-	(205)	(205)
Net as of December 31, 2018	2,073	3,320	5,393
Net additions	8,165	631	8,796
Amounts used during the period	(2,710)	(1,268)	(3,978)
Foreign currency translation adjustment	10	(79)	(69)
Net as of June 30, 2019	$ 7,538	$ 2,604	$ 10,142

Additions to the restructuring accrual during the second quarter of 2019 totaled $8,165 and represent employee-related severance resulting from the right-sizing of operating facilities in Brazil ($6,208), Canada ($1,679) and China ($278).

Based on estimated cash outflows, all provisions as at June 30, 2019 and December 31, 2018 are presented on the interim condensed consolidated balance sheets as current liabilities.

11. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 18.

	June 30, 2019	December 31, 2018
Banking facility	$ 712,565	$ 657,803
Equipment loans	73,278	82,914
	785,843	740,717
Current portion	(14,529)	(16,804)
	$ 771,314	$ 723,913

Terms and conditions of outstanding loans, as at June 30, 2019, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	June 30, 2019 Carrying amount	December 31, 2018 Carrying amount
Banking facility	USD	LIBOR + 1.70%	2022	$ 382,403	$ 388,102
	CAD	BA + 1.70%	2022	330,162	269,701
Equipment loans	EUR	1.05%	2024	27,871	32,076
	CAD	3.80%	2022	27,500	31,334
	EUR	1.40%	2026	16,227	-
	EUR	1.36%	2021	1,177	1,544
	EUR	0.26%	2025	321	362
	EUR	3.35%	2019	131	966
	BRL	5.00%	2020	51	76
	EUR	2.54%	2025	-	16,093
	USD	3.80%	2022	-	463
				$ 785,843	$ 740,717

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

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of $370 million and US $420 million (up from $350 million and US $400 million, respectively);
- available asset based financing capacity of $300 million (up from $205 million);

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

- 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, 2019, the Company has drawn US$292,000 (December 31, 2018 - US$286,000) on the U.S. revolving credit line and $333,000 (December 31, 2018 - $273,000) on the Canadian revolving credit line. At June 30, 2019, the weighted average effective interest rate of the banking facility credit lines was 4.0% (December 31, 2018 - 3.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2019.

Deferred financing fees of $2,838 (December 31, 2018 - $3,299) have been netted against the carrying amount of the long-term debt.

On January 30, 2019, the Company finalized an equipment loan in the amount of €10,900 ($16,602) repayable in monthly installments over six years starting in 2020 at a fixed annual interest rate of 1.40%.

Future annual minimum principal repayments as at June 30, 2019 are as follows:

		Scheduled principal repayments		**Scheduled amortization of deferred financing fees**		**Carrying amount of outstanding loans**
Within one year	$	15,450	$	921	$	14,529
One to two years		17,161		921		16,240
Two to three years		16,993		921		16,072
Three to four years		726,892		75		726,817
Thereafter		12,185		-		12,185
	$	788,681	$	2,838	$	785,843

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2017	$	654,017
Drawdowns		79,360
Equipment loan proceeds		36,886
Repayments		(57,710)
Deferred financing fee additions		(1,750)
Amortization of deferred financing fees		1,278
Foreign currency translation adjustment		28,636
Net as of December 31, 2018	$	740,717
Drawdowns		68,125
Loan proceeds		16,602
Repayments		(23,382)
Amortization of deferred financing fees		461
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16		(457)
Foreign currency translation adjustment		(16,223)
Net as of June 30, 2019	$	785,843

12. LEASE LIABILITIES

The Company enters into lease agreements for land and buildings, manufacturing equipment and other assets as a part of regular operations as a means of efficiently utilizing capital and managing the Company's cash flows.

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

Below is a summary of the activity related to the Company's lease liabilities for the six months ended June 30, 2019:

		Six months ended June 30, 2019
Net as of December 31, 2018	$	-
Initial recognition of lease liabilities upon transition to IFRS 16 (note 1(d))		228,623
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16		457
Net additions		6,584
Principal payments of lease liabilities		(14,111)
Foreign currency translation adjustment and other		(3,899)
Net as of June 30, 2019	$	217,654

The maturity of contractual undiscounted lease liabilities as at June 30, 2019 is as follows:

Within one year	$	36,533
One to two years		35,166
Two to three years		32,693
Three to four years		30,356
Thereafter		125,468
Total undiscounted lease liabilities at June 30, 2019	$	260,216
Interest on lease liabilities		(42,562)
Total present value of minimum lease payments	$	217,654
Current portion		(28,053)
	$	189,601

13. CAPITAL STOCK

Common shares outstanding:	**Number**		**Amount**
Balance as of, December 31, 2017	86,745,834	$	713,425
Exercise of stock options	123,750		1,476
Balance as of, June 30, 2018	86,869,584	$	714,901
Exercise of stock options	110,000		1,047
Repurchase of common shares under normal course issuer bid	(2,150,400)		(17,699)
Repurchase of common shares subsequent to year-end under an automatic share purchase program with a broker	(2,198,079)		(18,092)
Balance as of, December 31, 2018	82,631,105	$	680,157
Exercise of stock options	115,500		1,294
Balance as of, June 30, 2019	82,746,605	$	681,451

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

Repurchase of capital stock:

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

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

At the end of 2018, the Company entered into an Automatic Share Purchase Program ("ASPP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares under the ASPP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASPP for an aggregate purchase price of $26,335, resulting in a decrease to stated capital of $18,092 and a decrease to retained earnings of $8,243. The shares were purchased and cancelled directly under the NCIB.

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

Stock options

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

	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	2,430,700	$	11.46	1,844,450	$	10.12
Granted during the period	20,000		13.19	100,000		16.06
Exercised during the period	(115,500)		7.98	(123,750)		8.77
Balance, end of period	2,335,200	$	11.65	1,820,700	$	10.54
Options exercisable, end of period	1,545,200	$	10.77	1,745,700	$	10.30

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2019:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$7.00 - 8.70	443,200	2009 - 2012	2019 - 2022
$10.40 - 16.06	1,892,000	2012 - 2019	2022 - 2029
Total share purchase options	2,335,200		

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

The key assumptions, on a weighted average basis, used in the valuation of options granted during the six months ended June 30, 2019 and 2018 are shown in the table below:

		Six months ended June 30, 2019		Six months ended June 30, 2018
Expected volatility		36.67%		37.21%
Risk free interest rate		2.19%		1.82%
Expected life (years)		4.9		4.0
Dividend yield		1.36%		0.75%
Weighted average fair value of options granted	$	3.82	$	4.76

For the three and six months ended June 30, 2019, the Company expensed $315 (2018 - $54) and $629 (2018 - $228), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

Deferred Share Unit Plan ("DSU")

The following is a summary of the issued and outstanding DSUs as at June 30, 2019 and 2018:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Outstanding, beginning of period	174,574	123,313
Granted and reinvested dividends	28,908	19,619
Redeemed	-	-
Outstanding, end of period	203,482	142,932

The DSUs granted during the six months ended June 30, 2019 and 2018 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of $13.26 and $15.77, respectively, on the date of grant. At June 30, 2019, the fair value of all outstanding DSUs amounted to $2,078 (June 30, 2018 - $2,173 and December 31, 2018 - $1,806). For the three and six months ended June 30, 2019, DSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $124 (2018 - expense of $306) and an expense of $272 (2018 - expense of $235), respectively, recorded in selling, general and administrative expense.

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

Performance Restricted Share Unit Plan ("PSU" and "RSU")

The following is a summary of the issued and outstanding RSUs and PSUs for the six months ended June 30, 2019 and 2018:

	RSUs	PSUs	Total
Outstanding, December 31, 2017	77,304	77,304	154,608
Granted and reinvested dividends	149,696	149,696	299,392
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, June 30, 2018	227,000	227,000	454,000
Granted and reinvested dividends	62,210	62,210	124,420
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, December 31, 2018	289,210	289,210	578,420
Granted and reinvested dividends	83,252	83,252	166,504
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, June 30, 2019	372,462	372,462	744,924

The RSUs and PSUs granted during the six months ended June 30, 2019 and 2018 had a weighted average fair value per unit of $14.00 and $16.31, respectively, on the date of grant. For the three and six months ended June 30, 2019, RSU and PSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $80 (2018 - expense of $772) and an expense of $1,656 (2018 - expense of $1,145), respectively, recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2019 was $2,592 (June 30, 2018 - $3,316 and December 31, 2018 - $2,868) and will be recognized in earnings over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the six months ended June 30, 2019 and 2018 are shown in the table below:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Expected life (years)	2.67	2.46
Risk free interest rate	1.59%	1.91%

14. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Current income tax expense	$ (17,703)	$ (22,661)	$ (36,216)	$ (60,270)
Deferred income tax recovery	61	4,596	189	24,252
Total income tax expense	$ (17,642)	$ (18,065)	$ (36,027)	$ (36,018)

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

15. EARNINGS PER SHARE

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

	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	82,746,605	$	0.34	86,813,890	$	0.64
Effect of dilutive securities:						
Stock options	174,955		-	612,332		-
Diluted	82,921,560	$	0.34	87,426,222	$	0.64

	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	83,051,964	$	1.00	86,779,862	$	1.29
Effect of dilutive securities:						
Stock options	193,735		-	584,346		(0.01)
Diluted	83,245,699	$	1.00	87,364,208	$	1.28

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

For the three months ended June 30, 2019, 1,607,000 options (2018 - 100,000) and for the six months ended June 30, 2019, 1,607,000 options (2018 - 100,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
Debt interest, gross	$	(9,450)	$	(7,720)	$	(18,840)	$	(14,972)
Interest on lease liabilities		(2,316)		-		(3,896)		-
Capitalized interest - at an average rate of 4.0%, 3.9% (2018 - 3.3%, 3.1%)		1,822		813		2,996		1,564
Finance expense (including interest on lease liabilities)	$	(9,944)	$	(6,907)	$	(19,740)	$	(13,408)

		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
Net unrealized foreign exchange gain (loss)	$	(936)	$	(1,292)	$	(437)	$	1,381
Unrealized gain (loss) on warrants (note 7)		(229)		229		(810)		(538)
Other income, net		83		87		151		153
Other finance income (expense)	$	(1,082)	$	(976)	$	(1,096)	$	996

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

17. OPERATING SEGMENTS

The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

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

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2018 and recently adopted and applicable accounting standards and policies as disclosed in note 1(d) of these financial statements. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

Three months ended June 30, 2019	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 159,927	$ 3,729	$ 163,656	
USA	285,582	12,533	298,115	
Mexico	317,268	20,548	337,816	
Eliminations	(43,767)	(1,779)	(45,546)	
	$ 719,010	$ 35,031	$ 754,041	$ 69,998
Europe				
Germany	103,936	11,170	115,106	
Spain	34,619	3,015	37,634	
Slovakia	13,469	313	13,782	
Eliminations	-	(911)	(911)	
	152,024	13,587	165,611	10,712
Rest of the World	28,496	1,971	30,467	(23,408)
Eliminations	(1,439)	(147)	(1,586)	
	$ 898,091	$ 50,442	$ 948,533	$ 57,302

Three months ended June 30, 2018	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 163,866	$ 11,262	$ 175,128	
USA	295,624	14,428	310,052	
Mexico	238,217	19,635	257,852	
Eliminations	(38,759)	(2,426)	(41,185)	
	$ 658,948	$ 42,899	$ 701,847	$ 67,159
Europe				
Germany	118,121	14,554	132,675	
Spain	35,793	4,747	40,540	
Slovakia	15,062	1,532	16,594	
Eliminations	-	(1,106)	(1,106)	
	168,976	19,727	188,703	14,747
Rest of the World	31,499	2,329	33,828	(231)
Eliminations	(2,475)	(193)	(2,668)	
	$ 856,948	$ 64,762	$ 921,710	$ 81,675

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

	Six months ended June 30, 2019			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 320,264	$ 7,298	$ 327,562	
USA	599,539	49,018	648,557	
Mexico	623,417	82,437	705,854	
Eliminations	(89,291)	(27,504)	(116,795)	
	$ 1,453,929	$ 111,249	$ 1,565,178	$ 141,123
Europe				
Germany	222,204	27,401	249,605	
Spain	76,054	5,106	81,160	
Slovakia	26,604	1,392	27,996	
Eliminations	-	(2,755)	(2,755)	
	324,862	31,144	356,006	25,999
Rest of the World	49,499	4,300	53,799	(26,357)
Eliminations	(2,946)	(343)	(3,289)	
	$ 1,825,344	$ 146,350	$ 1,971,694	$ 140,765

	Six months ended June 30, 2018			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 325,356	$ 25,411	$ 350,767	
USA	617,342	48,707	666,049	
Mexico	484,835	31,840	516,675	
Eliminations	(83,004)	(7,485)	(90,489)	
	$ 1,344,529	$ 98,473	$ 1,443,002	$ 128,627
Europe				
Germany	238,998	18,663	257,661	
Spain	78,374	7,694	86,068	
Slovakia	29,214	2,589	31,803	
Eliminations	-	(1,106)	(1,106)	
	346,586	27,840	374,426	30,582
Rest of the World	64,178	10,031	74,209	907
Eliminations	(5,654)	(373)	(6,027)	
	$ 1,749,639	$ 135,971	$ 1,885,610	$ 160,116

18. FINANCIAL INSTRUMENTS

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

Fair Value

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

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

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

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

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 90,140	$ 90,140	$ -	$ -
Warrants in NanoXplore (note 7)	$ 1,398	$ -	$ 1,398	$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	$ 259	$ -	$ 259	$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	$ (1,210)	$ -	$ (1,210)	$ -

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

Fair values versus carrying amounts

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

June 30, 2019	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 633,636	$ -	$ 633,636	$ 633,636
Warrants in NanoXplore (note 7)	1,398	-	-	-	1,398	1,398
Foreign exchange forward contracts not accounted for as hedges	259	-	-	-	259	259
	1,657	-	633,636	-	635,293	635,293
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(817,487)	(817,487)	(817,487)
Long-term debt	-	-	-	(785,843)	(785,843)	(785,843)
Foreign exchange forward contracts accounted for as hedges	-	(1,210)	-	-	(1,210)	(1,210)
	-	(1,210)	-	(1,603,330)	(1,604,540)	(1,604,540)
Net financial assets (liabilities)	$ 1,657	$ (1,210)	$ 633,636	$ (1,603,330)	$ (969,247)	$ (969,247)

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

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

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

Risk Management

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

(a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 32.2%, 29.4%, and 14.1% of its production sales for the six months ended June 30, 2019 (2018 - 30.6%, 26.3%, and 15.8%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at June 30, 2019 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 0.5% of total trade receivables for all periods and movements in the period were minimal.

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

	June 30, 2019	December 31, 2018
0-60 days	$ 597,079	$ 540,728
61-90 days	10,823	18,437
Greater than 90 days	13,302	26,625
	$ 621,204	$ 585,790

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2019, the Company had cash of $90,140 (December 31, 2018 - $70,162) and banking facilities available as discussed in note 11. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

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

(c) Interest rate risk

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

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

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

	Carrying amount	
	June 30, 2019	December 31, 2018
Variable rate instruments	$ 712,565	$ 657,803
Fixed rate instruments	73,278	82,914
	$ 785,843	$ 740,717

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $1,815 (2018 - $1,487) on the Company's consolidated financial results for the three months ended June 30, 2019 and $3,577 (2018 - $2,907) for the six months ended June 30, 2019.

(d) Currency risk

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

At June 30, 2019, the Company had committed to the following foreign exchange contracts:

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

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$ 41,800	1.3195	1
Buy Mexican Peso	$ 18,843	19.1050	1

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax gain of $259 and was recorded in trade and other receivables (December 31, 2018 - pre-tax gain of $66 recorded in trade and other receivables).

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

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$ 46,900	1.2780	42

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax loss of $1,210 and was recorded in trade and other payables (December 31, 2018 - pre-tax loss of $4,096 recorded in trade and other payables).

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

June 30, 2019	USD	EURO	PESO	BRL	CNY
Trade and other receivables	$ 339,155	€ 68,179	$ 28,927	R$ 28,163	¥ 79,893
Trade and other payables	(389,830)	(86,722)	(228,403)	(40,827)	(72,684)
Long-term debt	(292,000)	(30,716)	-	(149)	-
	$ (342,675)	€ (49,259)	$ (199,476)	R$ (12,813)	¥ 7,209

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

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

The following summary illustrates the fluctuations in the exchange rates applied during the three and six months ended June 30, 2019 and 2018 and as at December 31, 2018:

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018	June 30, 2019	December 31, 2018
USD	1.3385	1.2857	1.3357	1.2735	1.3096	1.3570
EURO	1.5048	1.5576	1.5110	1.5433	1.4887	1.5567
PESO	0.0701	0.0679	0.0691	0.0673	0.0682	0.0686
BRL	0.3434	0.3730	0.3475	0.3803	0.3408	0.3498
CNY	0.1982	0.2029	0.1969	0.1993	0.1905	0.1985

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2019 and 2018 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
USD	$ (3,524)	$ (3,633)	$ (7,779)	$ (7,698)
EURO	(1,303)	(1,259)	(2,559)	(2,586)
BRL	644	56	853	146
CNY	1,850	138	2,014	(105)
	$ (2,333)	$ (4,698)	$ (7,471)	$ (10,243)

A weakening of the Canadian dollar against the above currencies at June 30, would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Capital risk management

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

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

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

19. CONTINGENCIES

Contingencies

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

Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately $69,551 (BRL $204,078) including interest and penalties to June 30, 2019 (December 31, 2018 - $74,319 or BRL $212,462). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling $28,562 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

20. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's interim condensed consolidated balance sheet. At June 30, 2019, the amount of the off-balance sheet program financing was $34,864 (December 31, 2018 - $58,871) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2018 or 2019. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.