MARTINREA INTERNATIONAL INC.

SECOND QUARTER REPORT

JUNE 30, 2018

SECOND QUARTER REPORT

June 30, 2018

MESSAGE TO SHAREHOLDERS

The Company experienced a record second quarter, with improving earning and margins, as reflected in the attached materials. Our Company continues to improve. Our financial position remains very strong and our future is bright.

We thank you for your ongoing support as we work hard to build our company and your company.

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

PRESS RELEASE

FOR IMMEDIATE RELEASE
August 8, 2018

MARTINREA INTERNATIONAL INC. REPORTS RECORD SECOND QUARTER RESULTS, NEW PRODUCT AWARDS AND ANNOUNCES DIVIDEND

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a leader in the development and production of quality metal parts, assemblies and modules and fluid management systems and complex aluminum products focused primarily on the automotive sector, announced today the release of its financial results for the second quarter ended June 30, 2018 and a quarterly dividend.

HIGHLIGHTS

- Fifteenth consecutive quarter with record year-over-year adjusted earnings
- Total sales of $922 million; production sales of $857 million
- Record second quarter net income of $55.7 million, or $0.64 per share
- Record second quarter adjusted net income of $55.5 million, or $0.64 per share
- Record quarterly adjusted EBITDA of $125.7 million
- Quarterly adjusted operating income (8.9%) and adjusted EBITDA (13.6%) margins increase substantially year-over-year
- Balance sheet continues to strengthen; quarter end net debt:adjusted EBITDA ratio very strong improving to1.36:1
- New business awards of approximately $240 million in annualized sales
- Quarterly cash dividend of $0.045 declared

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "Our second quarter results and performance were outstanding, and I am very pleased with our progress and the efforts from our people. Our metrics in the quarter and year to date continue to improve, with record earnings and significantly higher year-over-year operating margins. Productivity improvements and better product mix are helping drive the margin expansion. Our metrics in quality and safety are becoming a source of real strength for us, and our people are embracing the acceleration of our Martinrea 2.0 strategy. One of the best indicators of the progress we are making of course is new business wins. In addition to the $300 million of new business announced last quarter, I am pleased to announce new business wins for the second quarter totalling another $240 million in annualized sales at peak volume, as follows: new fluids business with Ford and GM starting in 2021 ($35 million sales at peak volume); new steel metal forming business on the Nissan Pathfinder starting in 2020 ($50 million sales at peak volume) to be produced at two of our southern US plants; new steel metal forming work for FCA on the Grand Cherokee starting in 2021 ($140 million sales at peak volume) to be produced in Michigan; and new aluminum work for JLR starting in 2021 ($15 million sales at peak volume) to be produced in Spain. That's over half a billion dollars in new business announced in the past three months. Most of these awards reflect a strong customer response to our lightweighting solutions over a broad range of vehicles using steel or aluminum, or both, and illustrate that our strategy of providing leading edge, high quality lightweighting solutions at a competitive price is bearing fruit, with a variety of customers in many countries. We thank our customers for their support."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the second quarter, excluding tooling sales of $65 million, were $857 million, slightly below our previously announced sales guidance range, as certain platforms had lower than expected volumes and a fire at another supplier's magnesium plant disrupted vehicle production of various customers resulting in lower sales for the quarter. In the quarter, our adjusted net earnings per share, on a basic and diluted basis, was $0.64 per share, a record second quarter and at the mid point of our quarterly guidance range, despite the lower sales. Quarterly adjusted operating income and adjusted EBITDA margins increased significantly year-over-year and quarter-over-quarter. Operating income margin for the quarter hit 8.9%. Our balance sheet continues to strengthen as well ending the quarter at a net debt to adjusted EBITDA ratio of 1.36:1. We intend to maintain a strong balance sheet over time, and will pay down debt as appropriate, although, as previously stated, we do not have specific targets. I am also pleased to report that we extended and expanded our credit facilities with our banking syndicate, closing just a few weeks ago. We have extended our maturity date to July 2022, we enhanced certain provisions of our facility, including larger lines of credit to fund our growth if needed, improved financial covenants, and increased flexibility on asset based financing, all at market pricing consistent with the previous facility. In addition, we moved to an unsecured credit structure. We have long viewed and treated our lending syndicate as partners, and we have a great relationship with them. We thank them for their continued support."

Rob Wildeboer, Executive Chairman, stated: "We believe our One Martinrea Culture, expressed through our Vision, Mission and Ten Principles, is and will be a source of sustainable competitive advantage for us, and we believe that the financial results of this quarter, our strengthened lending relationships, and the tremendous support of our customers evidenced by a high volume of product wins, including some so called conquest business, bears that out. As we generate positive financial performance and cash flow in future, we will have the funds to invest in our business to support organic growth, and that is and will remain our top priority in terms of capital allocation. While we have made a number of acquisitions in the past, some very significant, and while the M&A market seems very active these days, our intention is not to pay above value prices for assets, and we see little need to do so given organic growth existing and prospective. I note that we believe in the future value of our shares over time, and in that regard we intend to announce a normal course issuer bid shortly, as a potential source of returning capital to our shareholders, in the context of funding our own business growth and maintaining a strong balance sheet first. The year 2018 has had a great start. Building on that, we anticipate a strong third quarter, with production sales in the range of $790 to $830 million and adjusted net earnings per share in the range of $0.43 to $0.47, reflecting year over year improvements. The seasonality of our business in our third quarter is typically our lowest production sales quarter given planned customer summer shutdowns. 2018 is expected to be a record year for us, and the future looks terrific."

RESULTS OF OPERATIONS

All amounts in this press release 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 Management Discussion and Analysis of Operating Results and Financial Position for the second quarter ended June 30, 2018 ("MD&A"), the Company's interim condensed consolidated financial statements for the second quarter ended June 30, 2018 (the "interim consolidated financial statements") and the Company's Annual Information Form for the year ended December 31, 2017, can be found at www.sedar.com.

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 press release*

		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 press release*

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.

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 the 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.

<u>NET INCOME</u>
(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).

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.

DIVIDEND

A cash dividend of $0.045 per share has been declared by the Board of Directors payable to shareholders of record on September 30, 2018, on or about October 15, 2018.

ABOUT MARTINREA

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 contributions to our communities as good corporate citizens.

CONFERENCE CALL DETAILS

A conference call to discuss those results will be held on Thursday, August 9, 2018 at 8:30am. (Toronto time) which can be accessed by dialing (416) 340-2218 or toll free (800) 377-0758. Please call 10 minutes prior to the start of the conference call.

If you have any teleconferencing questions, please call Andre La Rosa at (416) 749-0314.

There will also be a rebroadcast of the call available by dialing (905) 694-9451 or toll free (800) 408-3053 (conference id - 1498875#). The rebroadcast will be available until August 27, 2018.

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements in, expansion of and/or guidance or outlook as to future revenue, sales, gross margin, earnings, and earnings per share (including as adjusted), or operating income margins, improvements in the Company's metrics including quality and safety, the intention to maintain a strong balance sheet and pay down debt over time, program wins, expected volumes, the ramping up and launching of new programs and the financial impact of launches, statements relating to investments in the business, pursuit of its strategies, the intention to commence an NCIB, the payment of dividends, as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan", "outlook" 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, such as expected sales and industry production estimates, current foreign exchange rates (FX), timing of product launches and operational improvements during the period and current Board approved budgets. Certain forward-looking financial assumptions are presented as non-IFRS information, and we do not provide reconciliation to IFRS for such assumptions. 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 and other public filings which can found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- Competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;

- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposure;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as under-funding of pensions plans;
- the cost of post-employment benefits;
- impairment charges;
- cybersecurity 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.

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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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.

MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	June 30, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents		$ 75,258	$ 71,193
Trade and other receivables	2	587,902	556,049
Inventories	3	448,414	376,972
Prepaid expenses and deposits		19,509	15,504
Income taxes recoverable		8,694	12,979
TOTAL CURRENT ASSETS		1,139,777	1,032,697
Property, plant and equipment	4	1,365,662	1,282,624
Deferred income tax assets		171,738	142,173
Intangible assets	5	68,343	68,414
Other assets	6	14,790	15,265
TOTAL NON-CURRENT ASSETS		1,620,533	1,508,476
TOTAL ASSETS		$ 2,760,310	$ 2,541,173
LIABILITIES			
Trade and other payables	7	$ 792,189	$ 741,549
Provisions	8	4,850	5,048
Income taxes payable		30,083	34,429
Current portion of long-term debt	9	18,021	24,795
TOTAL CURRENT LIABILITIES		845,143	805,821
Long-term debt	9	662,071	629,222
Pension and other post-retirement benefits		62,982	65,258
Deferred income tax liabilities		85,608	82,373
TOTAL NON-CURRENT LIABILITIES		810,661	776,853
TOTAL LIABILITIES		1,655,804	1,582,674
EQUITY			
Capital stock	10	714,901	713,425
Contributed surplus		41,818	41,981
Accumulated other comprehensive income		131,608	94,268
Retained earnings		216,179	108,825
TOTAL EQUITY		1,104,506	958,499
TOTAL LIABILITIES AND EQUITY		$ 2,760,310	$ 2,541,173

Subsequent event (note 9)

Contingencies (note 16)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" 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, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
SALES		$ 921,710	$ 972,772	$ 1,885,610	$ 1,973,322
Cost of sales (excluding depreciation of property, plant and equipment)		(733,790)	(808,539)	(1,517,649)	(1,658,324)
Depreciation of property, plant and equipment (production)		(37,885)	(35,307)	(73,497)	(67,857)
Total cost of sales		(771,675)	(843,846)	(1,591,146)	(1,726,181)
GROSS MARGIN		150,035	128,926	294,464	247,141
Research and development costs		(6,463)	(6,437)	(13,147)	(13,252)
Selling, general and administrative		(58,520)	(52,539)	(114,862)	(105,138)
Depreciation of property, plant and equipment (non-production)		(2,615)	(2,412)	(5,061)	(4,671)
Amortization of customer contracts and relationships		(538)	(540)	(1,068)	(1,080)
Gain (loss) on disposal of property, plant and equipment		(224)	(40)	(210)	293
Gain on sale of land and building	4	-	-	-	5,698
OPERATING INCOME		81,675	66,958	160,116	128,991
Finance expense		(6,907)	(5,497)	(13,408)	(11,341)
Other finance income (expense)	13	(976)	112	996	743
INCOME BEFORE INCOME TAXES		73,792	61,573	147,704	118,393
Income tax expense	11	(18,065)	(14,162)	(36,018)	(27,515)
NET INCOME FOR THE PERIOD		$ 55,727	$ 47,411	$ 111,686	$ 90,878
Non-controlling interest		-	(65)	-	70
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$ 55,727	$ 47,346	$ 111,686	$ 90,948

Basic earnings per share	12	$ 0.64	$ 0.55	$ 1.29	$ 1.05
Diluted earnings per share	12	$ 0.64	$ 0.55	$ 1.28	$ 1.05

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) (unaudited)

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
NET INCOME FOR THE PERIOD	$ 55,727	$ 47,411	$ 111,686	$ 90,878
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	392	(7,664)	39,825	(12,354)
Change in fair value of investments	466	-	(539)	-
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized loss in fair value of financial instruments	(1,975)	-	(1,975)	-
Reclassification of losses to net income	29	-	29	-
Items that will not be reclassified to net income				
Remeasurement of defined benefit plans	170	(3,194)	2,245	(3,729)
Other comprehensive income (loss), net of tax	(918)	(10,858)	39,585	(16,083)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 54,809	$ 36,553	$ 151,271	$ 74,795
Attributable to:				
Equity holders of the Company	54,809	36,488	151,271	74,865
Non-controlling interest	-	65	-	(70)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 54,809	$ 36,553	$ 151,271	$ 74,795

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Equity attributable to equity holders of the Company						
	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings/ (accumulated deficit)	Total	Non-controlling interest	Total equity
BALANCE AT DECEMBER 31, 2016	$ 710,510	$ 42,660	$ 117,048	$ (40,020)	$ 830,198	$ (522)	$ 829,676
Net income for the period	-	-	-	90,948	90,948	(70)	90,878
Compensation expense related to stock options	-	74	-	-	74	-	74
Dividends ($0.06 per share)	-	-	-	(5,194)	(5,194)	-	(5,194)
Exercise of employee stock options	284	(82)	-	-	202	-	202
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	(3,729)	(3,729)	-	(3,729)
Foreign currency translation differences	-	-	(12,354)	-	(12,354)	-	(12,354)
BALANCE AT JUNE 30, 2017	710,794	42,652	104,694	42,005	900,145	(592)	899,553
Net income for the period	-	-	-	68,595	68,595	(207)	68,388
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	49	-	-	49	-	49
Dividends ($0.06 per share)	-	-	-	(5,194)	(5,194)	-	(5,194)
Exercise of employee stock options	2,631	(720)	-	-	1,911	-	1,911
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	5,268	5,268	-	5,268
Foreign currency translation differences	-	-	(18,383)	-	(18,383)	-	(18,383)
Change in fair value of investments	-	-	7,957	-	7,957	-	7,957
BALANCE AT DECEMBER 31, 2017	713,425	41,981	94,268	108,825	958,499	-	958,499
Net income for the period	-	-	-	111,686	111,686	-	111,686
Compensation expense related to stock options	-	228	-	-	228	-	228
Dividends ($0.075 per share)	-	-	-	(6,577)	(6,577)	-	(6,577)
Exercise of employee stock options	1,476	(391)	-	-	1,085	-	1,085
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	2,245	2,245	-	2,245
Foreign currency translation differences	-	-	39,825	-	39,825	-	39,825
Change in fair value of investments	-	-	(539)	-	(539)	-	(539)
Cash flow hedging derivative and non-derivative financial instruments:							
Unrealized loss in fair value of financial instruments	-	-	(1,975)	-	(1,975)	-	(1,975)
Reclassification of losses to net income	-	-	29	-	29	-	29
BALANCE AT JUNE 30, 2018	$ 714,901	$ 41,818	$ 131,608	$ 216,179	$ 1,104,506	$ -	$ 1,104,506

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, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net Income for the period	$ 55,727	$ 47,411	$ 111,686	$ 90,878
Adjustments for:				
Depreciation of property, plant and equipment	40,500	37,719	78,558	72,528
Amortization of customer contracts and relationships	538	540	1,068	1,080
Amortization of development costs	2,795	3,450	5,742	6,646
Unrealized loss (gain) on foreign exchange forward contracts	839	2,146	(465)	450
Unrealized loss (gain) on derivative instruments (note 6)	(229)	-	538	-
Finance expense	6,907	5,497	13,408	11,341
Income tax expense	18,065	14,162	36,018	27,515
Loss (gain) on disposal of property, plant and equipment	224	40	210	(293)
Deferred and restricted share units expense	1,078	691	1,380	789
Stock options expense	54	38	228	74
Gain on sale of land and building (note 4)	-	-	-	(5,698)
Pension and other post-retirement benefits expense	1,195	1,154	2,372	2,292
Contributions made to pension and other post-retirement benefits	(1,981)	(476)	(2,624)	(976)
	125,712	112,372	248,119	206,626
Changes in non-cash working capital items:				
Trade and other receivables	61,120	14,544	(11,566)	(43,102)
Inventories	(22,823)	(18,203)	(59,238)	(36,752)
Prepaid expenses and deposits	(613)	(1,821)	(3,692)	(3,865)
Trade, other payables and provisions	(46,595)	(22,090)	53,581	97,505
	116,801	84,802	227,204	220,412
Interest paid (excluding capitalized interest)	(7,311)	(4,844)	(14,244)	(9,964)
Income taxes paid	(30,900)	(9,205)	(62,578)	(32,657)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 78,590	$ 70,753	$ 150,382	$ 177,791
FINANCING ACTIVITIES:				
Increase in long-term debt	36,886	-	56,575	-
Repayment of long-term debt	(41,724)	(7,631)	(47,003)	(34,590)
Dividends paid	(2,603)	(2,591)	(5,205)	(5,182)
Exercise of employee stock options	1,085	-	1,085	202
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ (6,356)	$ (10,222)	$ 5,452	$ (39,570)
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment*	(79,849)	(56,213)	(151,302)	(143,552)
Capitalized development costs	(3,492)	(3,768)	(6,484)	(7,291)
Investment in NanoXplore Inc. (note 6)	-	-	(680)	-
Proceeds on disposal of property, plant and equipment	203	167	973	625
Upfront recovery of development costs incurred	2,276	1,170	2,276	1,170
Proceeds on disposal of land and building (note 4)	-	-	-	9,872
NET CASH USED IN INVESTING ACTIVITIES	$ (80,862)	$ (58,644)	$ (155,217)	$ (139,176)
Effect of foreign exchange rate changes on cash and cash equivalents	2,491	(793)	3,448	(1,067)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,137)	1,094	4,065	(2,022)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	81,395	56,049	71,193	59,165
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 75,258	$ 57,143	$ 75,258	$ 57,143

*As at June 30, 2018, $32,486 (December 31, 2017 - $63,877) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the 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 leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector.

1. BASIS OF PREPARATION

(a) Statement of compliance

These 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, 2017, 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, 2017.

(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

The Company has initially 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 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.

(i) Financial assets and liabilities

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

(ii) 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.

(iii) Derivative financial instruments not accounted for as hedges

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments, as well as derivative instruments associated with investments in equity securities, are classified as 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.

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.

(e) 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.

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

2. TRADE AND OTHER RECEIVABLES

	June 30, 2018	December 31, 2017
Trade receivables	$ 570,678	$ 538,830
Other receivables	16,759	17,219
Foreign exchange forward contracts not accounted for as hedges (note 15(d))	465	-
	$ 587,902	$ 556,049

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 15.

3. INVENTORIES

	June 30, 2018	December 31, 2017
Raw materials	$ 157,770	$ 154,293
Work in progress	38,850	38,618
Finished goods	36,780	34,962
Tooling work in progress and other inventory	215,014	149,099
	$ 448,414	$ 376,972

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 124,462	$ (19,806)	$ 104,656	$ 118,154	$ (17,157)	$ 100,997
Leasehold improvements	67,795	(38,803)	28,992	62,100	(35,897)	26,203
Manufacturing equipment	1,913,420	(1,006,797)	906,623	1,758,415	(909,065)	849,350
Tooling and fixtures	39,975	(32,926)	7,049	38,509	(31,034)	7,475
Other assets	58,664	(28,306)	30,358	53,197	(24,793)	28,404
Construction in progress and spare parts	287,984	-	287,984	270,195	-	270,195
	$ 2,492,300	$ (1,126,638)	$ 1,365,662	$ 2,300,570	$ (1,017,946)	$ 1,282,624

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2016	$ 120,049	$ 24,987	$ 808,036	$ 8,419	$ 17,757	$ 277,999	$ 1,257,247
Additions	-	802	565	-	242	250,311	251,920
Disposals	(22,497)	(311)	(2,024)	-	(209)	-	(25,041)
Depreciation	(4,068)	(4,173)	(134,515)	(1,435)	(5,479)	-	(149,670)
Impairment	-	-	(7,488)	-	-	-	(7,488)
Transfers from construction in progress and spare parts	12,537	5,272	213,526	987	16,583	(248,905)	-
Foreign currency translation adjustment	(5,024)	(374)	(28,750)	(496)	(490)	(9,210)	(44,344)
Net as of December 31, 2017	100,997	26,203	849,350	7,475	28,404	270,195	1,282,624
Additions	8	140	-	-	66	119,697	119,911
Disposals	-	-	(506)	-	(7)	(670)	(1,183)
Depreciation	(1,979)	(2,028)	(70,642)	(876)	(3,033)	-	(78,558)
Transfers from construction in progress and spare parts	2,012	4,062	100,457	185	4,314	(111,030)	-
Foreign currency translation adjustment	3,618	615	27,964	265	614	9,792	42,868
Net as of June 30, 2018	$ 104,656	$ 28,992	$ 906,623	$ 7,049	$ 30,358	$ 287,984	$ 1,365,662

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

The Company has entered into certain asset based financing arrangements that were structured as sales-leaseback transactions. At June 30, 2018, the carrying value of property, plant and equipment under such arrangements was $19,582 (December 31, 2017 – $21,001). The corresponding amounts owing are reflected within long-term debt (note 9).

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

5. INTANGIBLE ASSETS

	June 30, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 61,976	$ (56,984)	$ 4,992	$ 61,432	$ (55,512)	$ 5,920
Development costs	148,179	(84,828)	63,351	143,325	(80,831)	62,494
	$ 210,155	$ (141,812)	$ 68,343	$ 204,757	$ (136,343)	$ 68,414

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2016	$ 8,172	$ 65,089	$ 73,261
Additions	-	14,211	14,211
Amortization	(2,162)	(13,237)	(15,399)
Upfront recovery of development costs incurred	-	(1,170)	(1,170)
Foreign currency translation adjustment	(90)	(2,399)	(2,489)
Net as of December 31, 2017	5,920	62,494	68,414
Additions	-	6,484	6,484
Amortization	(1,068)	(5,742)	(6,810)
Upfront recovery of development costs incurred	-	(2,276)	(2,276)
Foreign currency translation adjustment	140	2,391	2,531
Net as of June 30, 2018	$ 4,992	$ 63,351	$ 68,343

6. OTHER ASSETS

	June 30, 2018	December 31, 2017
Investment in common shares of NanoXplore Inc.	$ 11,232	$ 11,275
Warrants in NanoXplore Inc.	3,558	3,990
	$ 14,790	$ 15,265

Investment in NanoXplore Inc.

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

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

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

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

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $680 through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance. The purchase price of $680 was allocated to the additional common shares and warrants acquired based on their relative fair values at the time of issuance resulting in $574 being allocated to the common shares and $106 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 $3,558. Based on the fair value of the warrants as at June 30, 2018, an unrealized gain of $229 was recognized for the three months ended June 30, 2018, and an unrealized loss of $538 was recognized for the six months ended June 30, 2018, recorded in Other finance income (expense) in the interim condensed 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 30, 2018 the common shares had a fair value of $11,232. Based on the fair value of the common shares as at June 30, 2018, an unrealized gain of $532 ($466 net of tax) was recognized for the three months ended June 30, 2018, and an unrealized loss of $616 ($539 net of tax) was recognized for the six months ended June 30, 2018.

7. TRADE AND OTHER PAYABLES

		June 30, 2018		December 31, 2017
Trade accounts payable and accrued liabilities	$	790,645	$	741,403
Foreign exchange forward contracts not accounted for as hedges (note 15(d))		-		146
Foreign exchange forward contracts accounted for as hedges (note 15(d))		1,544		-
	$	792,189	$	741,549

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 15.

8. PROVISIONS

		Restructuring		Claims and Litigations		Total
Net as of December 31, 2016	$	5,248	$	1,441	$	6,689
Net additions		-		5,840		5,840
Amounts used during the period		(4,060)		(2,979)		(7,039)
Foreign currency translation adjustment		(72)		(370)		(442)
Net as of December 31, 2017		1,116		3,932		5,048
Net additions		-		1,257		1,257
Amounts used during the period		(292)		(854)		(1,146)
Foreign currency translation adjustment		11		(320)		(309)
Net as of June 30, 2018	$	835	$	4,015	$	4,850

Based on estimated cash outflows, all provisions as at June 30, 2018 and December 31, 2017 are presented on the interim condensed consolidated balance sheets as current liabilities.

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

9. 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 15.

	June 30, 2018	December 31, 2017
Banking facility	$ 586,869	$ 551,656
Equipment loans	93,223	102,361
	680,092	654,017
Current portion	(18,021)	(24,795)
	$ 662,071	$ 629,222

Terms and conditions of outstanding loans, as at June 30, 2018, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	June 30, 2018 Carrying amount	December 31, 2017 Carrying amount
Banking facility	USD	LIBOR + 1.75%	2020	$ 355,877	$ 321,152
	CAD	BA + 1.75%	2020	230,992	230,504
Equipment loans	CAD	3.80%	2022	35,095	38,785
	EUR	1.05%	2024	34,492	-
	EUR	2.54%	2025	15,864	15,561
	USD	4.25%	2018	3,341	8,917
	EUR	1.36%	2021	1,831	2,100
	EUR	3.35%	2019	1,757	2,504
	USD	3.80%	2022	389	413
	EUR	0.26%	2025	357	375
	BRL	5.00%	2020	97	135
	EUR	3.06%	2024	-	15,210
	EUR	4.93%	2023	-	15,131
	EUR	4.34%	2025	-	3,230
				$ 680,092	$ 654,017

As at June 30, 2018, the Company has drawn US$271,000 (December 31, 2017 - US$256,000) on the U.S. revolving credit line and $233,000 (December 31, 2017 - $233,000) on the Canadian revolving credit line. At June 30, 2018, the weighted average effective rate of the banking facility credit lines was 3.5% (December 31, 2017 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2018.

Deferred financing fees of $2,144 (December 31, 2017 - $2,827) have been netted against the carrying amount of the long-term debt.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23,000 ($36,886) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans at fixed annual interest rates of 3.06%, 4.34% and 4.93%.

Future annual minimum principal repayments as at June 30, 2018 are as follows:

Within one year	$ 18,021
One to two years	598,484
Two to three years	14,724
Three to four years	12,423
Thereafter	36,440
	$ 680,092

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

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2016	$	721,403
Equipment loan proceeds		40,000
Repayments		(88,648)
Amortization of deferred financing fees		1,368
Foreign currency translation adjustment		(20,106)
Net as of December 31, 2017	$	654,017
Drawdowns		19,689
Equipment loan proceeds		36,886
Repayments		(47,003)
Amortization of deferred financing fees		683
Foreign currency translation adjustment		15,820
Net as of June 30, 2018	$	680,092

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, with now a syndicate of ten banks (up from nine), include the following:

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

10. CAPITAL STOCK

Common shares outstanding:	Number		Amount
Balance, December 31, 2016	86,484,667	$	710,510
Exercise of stock options	27,500		284
Balance, June 30, 2017	86,512,167	$	710,794
Exercise of stock options	233,667		2,631
Balance, December 31, 2017	86,745,834	$	713,425
Exercise of stock options	123,750		1,476
Balance, June 30, 2018	86,869,584	$	714,901

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

Stock options

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

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	1,844,450	$	10.12	3,010,617	$	11.38
Granted during the period	100,000		16.06	-		-
Exercised during the period	(123,750)		8.77	(27,500)		7.33
Cancelled during the period	-		-	(647,500)		14.41
Balance, end of period	1,820,700	$	10.54	2,335,617	$	10.59
Options exercisable, end of period	1,745,700	$	10.30	2,210,617	$	10.52

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

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2018:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$6.00 - 8.99	643,701	2008 - 2012	2018 - 2022
$10.00 - 15.99	1,076,999	2008 - 2015	2018 - 2025
$16.00 - 17.99	100,000	2018	2022
Total share purchase options	1,820,700		

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
Expected volatility	37.21%	-
Risk free interest rate	1.82%	-
Expected life (years)	4	-
Dividend yield	0.75%	-
Weighted average fair value of options granted	$ 4.76	$ -

For the three and six months ended June 30, 2018, the Company expensed $54 (2017 - $38) and $228 (2017 - $74), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

Deferred Share Unit Plan

The following is a summary of the issued and outstanding DSUs as at June 30, 2018 and 2017:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Units outstanding, beginning of period	123,313	67,837
Units granted during the period	19,619	31,314
Units settled during the period	-	-
Units outstanding, end of period	142,932	99,151

The DSUs granted during the six months ended June 30, 2018 and 2017 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of $15.77 and $9.71, respectively, on the date of grant. At June 30, 2018, the fair value of all outstanding DSUs amounted to $2,173 (June 30, 2017 - $1,066 and December 31, 2017 - $1,939). For the three and six months ended June 30, 2018, DSU compensation expense reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to $306 (2017 - $400) and $235 (2017 - $498), respectively, recorded in Selling, general and administrative expense.

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

Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSUs and PSUs as at June 30, 2018 and 2017:

	RSUs	PSUs	Total
Units outstanding, December 31, 2016	-	-	-
Units granted during the period	27,232	27,232	54,464
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, June 30, 2017	27,232	27,232	54,464
Units granted during the period	50,072	50,072	100,144
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, December 31, 2017	77,304	77,304	154,608
Units granted during the period	149,696	149,696	299,392
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, June 30, 2018	227,000	227,000	454,000

The RSUs and PSUs granted during the six months ended June 30, 2018 and 2017 had a weighted average fair value per unit of $16.31 and $11.41, respectively, on the date of grant. For the three and six months ended June 30, 2018, RSU and PSU compensation expense reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to $772 (2017 - $291) and $1,145 (2017 - $291), respectively, recorded in Selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2018 was $3,316 (June 30, 2017 - $333 and December 31, 2017 - $803) and will be recognized in earnings over the next three years as the RSUs and PSUs vest.

The key assumptions, on a weighted average basis, used in the valuation of PSUs granted during the six months ended June 30, 2018 and 2017 are shown in the table below:

	Six months ended June 30, 2018	Six months ended June 30, 2017
Expected life (years)	2.46	2.67
Risk free interest rate	1.91%	0.74%

11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Current income tax expense	$ (22,661)	$ (17,506)	$ (60,270)	$ (42,429)
Deferred income tax recovery	4,596	3,344	24,252	14,914
Total income tax expense	$ (18,065)	$ (14,162)	$ (36,018)	$ (27,515)

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

12. EARNINGS PER SHARE

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

	Three months ended June 30, 2018			Three months ended June 30, 2017		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,813,890	$	0.64	86,512,167	$	0.55
Effect of dilutive securities:						
Stock options	612,332		-	274,099		-
Diluted	87,426,222	$	0.64	86,786,266	$	0.55

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,779,862	$	1.29	86,502,084	$	1.05
Effect of dilutive securities:						
Stock options	584,346		(0.01)	211,813		-
Diluted	87,364,208	$	1.28	86,713,897	$	1.05

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, 2018, 100,000 options (2017 - 1,119,500) and for the six months ended June 30, 2018, 100,000 options (2017 - 1,413,249) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

13. OTHER FINANCE INCOME (EXPENSE)

		Three months ended June 30, 2018		Three months ended June 30, 2017		Six months ended June 30, 2018		Six months ended June 30, 2017
Net foreign exchange gain (loss)	$	(1,292)	$	49	$	1,381	$	615
Unrealized gain (loss) on derivative instruments (note 6)		229		-		(538)		-
Other income, net		87		63		153		128
Other finance income (expense)	$	(976)	$	112	$	996	$	743

14. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described the Company's annual consolidated financial statements for the year ended December 31, 2017. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

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

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

Three months ended June 30, 2017	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 211,230	$ 24,058	$ 235,288	
USA	364,860	7,218	372,078	
Mexico	223,711	11,479	235,190	
Eliminations	(44,540)	(8,961)	(53,501)	
	$ 755,261	$ 33,794	$ 789,055	$ 60,358
Europe				
Germany	100,779	5,910	106,689	
Spain	34,060	346	34,406	
Slovakia	14,108	726	14,834	
Eliminations	(103)	(206)	(309)	
	148,844	6,776	155,620	9,279
Rest of the World	32,054	713	32,767	(2,679)
Eliminations	(2,688)	(1,982)	(4,670)	
	$ 933,471	$ 39,301	$ 972,772	$ 66,958

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

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

	Six months ended June 30, 2017			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 421,374	$ 42,766	$ 464,140	
USA	745,688	12,784	758,472	
Mexico	427,381	37,991	465,372	
Eliminations	(86,393)	(9,552)	(95,945)	
	$ 1,508,050	$ 83,989	$ 1,592,039	$ 113,511
Europe				
Germany	205,166	14,389	219,555	
Spain	74,309	4,823	79,132	
Slovakia	28,617	1,014	29,631	
Eliminations	(172)	(206)	(378)	
	307,920	20,020	327,940	21,858
Rest of the World	58,814	1,030	59,844	(6,378)
Eliminations	(4,992)	(1,509)	(6,501)	
	$ 1,869,792	$ 103,530	$ 1,973,322	$ 128,991

15. FINANCIAL INSTRUMENTS

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

Fair Value

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

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

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

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 75,258	$ 75,258	$ -	$ -
Other assets (note 6)	$ 14,790	$ 11,232	$ 3,558	$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	$ 465	$ -	$ 465	$ -
Foreign exchange forward contracts accounted for as hedges (note 7)	$ (1,544)	$ -	$ (1,544)	$ -

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 71,193	$ 71,193	$ -	$ -
Other assets (note 6)	$ 15,265	$ 11,275	$ 3,990	$ -
Foreign exchange forward contracts not accounted for as hedges (note 7)	$ (146)	$ -	$ (146)	$ -

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

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, 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	$ -	$ -	$ 587,437	$ -	$ 587,437	$ 587,437
Other assets (note 6)	3,558	11,232	-	-	14,790	14,790
Foreign exchange forward contracts not accounted for as hedges	465	-	-	-	465	465
	4,023	11,232	587,437	-	602,692	602,692
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(790,645)	(790,645)	(790,645)
Long-term debt	-	-	-	(680,092)	(680,092)	(680,092)
Foreign exchange forward contracts accounted for as hedges	-	(1,544)	-	-	(1,544)	(1,544)
	-	(1,544)	-	(1,470,737)	(1,472,281)	(1,472,281)
Net financial assets (liabilities)	$ 4,023	$ 9,688	$ 587,437	$ (1,470,737)	$ (869,589)	$ (869,589)

December 31, 2017	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 556,049	$ -	$ 556,049	$ 556,049
Other assets (note 6)	3,990	11,275	-	-	15,265	15,265
	3,990	11,275	556,049	-	571,314	571,314
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(741,403)	(741,403)	(741,403)
Long-term debt	-	-	-	(654,017)	(654,017)	(654,017)
Foreign exchange forward contracts	(146)	-	-	-	(146)	(146)
	(146)	-	-	(1,395,420)	(1,395,566)	(1,395,566)
Net financial assets (liabilities)	$ 3,844	11,275	$ 556,049	$ (1,395,420)	$ (824,252)	$ (824,252)

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

Risk Management

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

(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.

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

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 30.6%, 26.3% and 15.8% of its production sales for the six months ended June 30, 2018 (2017 - 33.7%, 28.3% and 14.6%). 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, 2018 are part of the normal payment pattern within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

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

	June 30, 2018	December 31, 2017
0-60 days	$ 529,470	$ 501,336
61-90 days	25,388	19,853
Greater than 90 days	15,820	17,641
	$ 570,678	$ 538,830

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2018, the Company had cash of $75,258 and banking facilities available as discussed in note 9. 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 9.

(c) Interest rate risk

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

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

	Carrying amount	
	June 30, 2018	December 31, 2017
Variable rate instruments	$ 586,869	$ 551,656
Fixed rate instruments	93,223	102,361
	$ 680,092	$ 654,017

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $1,487 (2017 - $1,523) on the Company's interim condensed consolidated financial results for the three months ended June 30, 2018 and $2,907 (2017 - $3,084) for the six months ended June 30, 2018.

(d) Currency risk

Currency risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company undertakes sales 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.

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

At June 30, 2018, the Company had committed to the following foreign exchange forward 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
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 $465 and was recorded in trade and other receivables (December 31, 2017 - loss of $146 and was recorded in trade and other payables).

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

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
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 $1,544 and was recorded in trade and other payables (December 31, 2017 - nil).

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

June 30, 2018		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	310,784	€	72,360	$	106,936	R$	28,467	¥	163,401
Trade and other payables		(343,132)		(93,544)		(173,194)		(40,093)		(125,779)
Long-term debt		(269,090)		(46,472)		-		(333)		-
	$	(301,438)	€	(67,656)	$	(66,258)	R$	(11,959)	¥	37,622

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

The following summary illustrates the fluctuations in the exchange rates applied during the three and six months ended June 30, 2018 and 2017:

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017	June 30, 2018	December 31, 2017
USD	1.2857	1.3483	1.2735	1.3355	1.3132	1.2571
EURO	1.5576	1.4642	1.5433	1.4329	1.5345	1.5089
PESO	0.0679	0.0713	0.0673	0.0677	0.0661	0.0639
BRL	0.3730	0.4264	0.3803	0.4192	0.3389	0.3795
CNY	0.2029	0.1958	0.1993	0.1937	0.1987	0.1924

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

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, 2018 and 2017 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
USD	$ (3,633)	$ (4,181)	$ (7,698)	$ (7,069)
EURO	(1,259)	(794)	(2,586)	(1,827)
BRL	56	330	146	696
CNY	138	106	(105)	166
	$ (4,698)	$ (4,539)	$ (10,243)	$ (8,034)

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) Market price risk related to publicly-traded investments

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

(f) Capital risk management

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

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

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

16. 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, is approximately $75,311 (BRL $222,222) including interest and penalties to June 30, 2018 (December 31, 2017- $83,110 or BRL 219,460). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling $51,694 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.

17. 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, 2018, the amount of the program financing was $43,419 (December 31, 2017 - $75,189) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

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

MARTINREA INTERNATIONAL INC.

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