MARTINREA INTERNATIONAL INC.

THIRD QUARTER REPORT

SEPTEMBER 30, 2018

THIRD QUARTER REPORT

September 30, 2018

MESSAGE TO SHAREHOLDERS

The Company experienced a record third quarter from a profitability perspective, with improving earnings 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
November 8, 2018

MARTINREA INTERNATIONAL INC. REPORTS RECORD THIRD QUARTER RESULTS 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 third quarter ended September 30, 2018 and a quarterly dividend.

HIGHLIGHTS

- Sixteenth consecutive quarter with record year-over-year adjusted earnings
- Total sales of $851 million; production sales of $803 million
- Record third quarter net income of $36.4 million, or $0.42 per share
- Record third quarter adjusted net income(1) of $37.2 million, or $0.43 per share
- Record third quarter adjusted EBITDA(1) of $103.7 million
- Quarterly adjusted operating income(1) (6.9%) and adjusted EBITDA(1) (12.2%) margins increase substantially year-over-year
- Balance sheet continues to strengthen; quarter end net debt:adjusted EBITDA(1) ratio very strong improving to 1.35:1
- New business awards of approximately $40 million in annualized sales
- Quarterly cash dividend of $0.045 declared
- $9 million in share repurchases in the third quarter

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "We are pleased with a record third quarter in terms of earnings and margin performance, despite some volume headwinds, some modest tariff effects and foreign exchange losses during the quarter. We continue to strengthen as a company, and that is demonstrated in improved metrics. We had some new business wins in the quarter totalling $40 million in annualized sales at peak volume, including $18 million in new fluids product with Ford, Geely and JMC starting in 2021, and $22 million in new aluminum work, a camshaft for Scania starting in 2021 and a battery housing for Samsung starting in 2020. This brings us to almost $600 million in new business wins in 2018 to date, making this our best year ever in terms of announcing organic growth in sales, giving us a solid pipeline for the future. The new business involves work with a wide variety of customers, reflecting that we are becoming a solutions supplier to more than just our traditional customers, which also is a great platform for future growth. This year should be a record year for us, and next year is shaping up to be better still."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the third quarter, excluding tooling sales of $48 million, were $803 million, at the lower end of our previously announced sales guidance range, as certain platforms had lower than expected volumes. In the quarter, our adjusted net earnings per share, on a basic and diluted basis, was $0.43 per share, within our quarterly guidance range but at the lower end due to a $2.1 million foreign exchange loss recognized during the quarter representing approximately $0.02 per share. Quarterly adjusted operating income and adjusted EBITDA margins increased significantly year-over-year. Operating income margin for the quarter hit 6.9%. Our balance sheet continues to strengthen as well ending the quarter at a net debt to adjusted EBITDA ratio of 1.35:1. We anticipate a strong end to 2018, with fourth quarter production sales projected to be in the range of $820 to $860 million, and adjusted net earnings per share in the range of $0.49 to $0.53, great results despite launch activity, some continued anticipated softness in OEM volumes on certain platforms and some tariff effects from the U.S. and Canadian tariffs on steel and aluminum."

Rob Wildeboer, Executive Chairman, stated: "We intend to maintain a strong balance sheet over time, and pay down debt as appropriate, while investing in our business, and that is what we have been doing. As previously indicated, we did receive approval for a normal course issuer bid and did purchase some of our shares for cancellation in the third quarter. Frankly, they represented a very good investment, given our performance and our prospects. We intend to continue to buy back some shares at these price levels, while balancing our other potential uses for our capital. I want to thank our people for their commitment and performance which has allowed us to generate the results to support an increased dividend and some stock buybacks this year. We also are pleased with the USMCA agreement announced at the end of the third quarter. While the USMCA is yet to be ratified, we are supportive of the automotive provisions that have been negotiated, which in our view will support a continued strong North American automotive industry and supply base. We were very well positioned to benefit from NAFTA, and we remain very well positioned to benefit from the USMCA. We are also supportive of the eventual removal of the steel and aluminum tariffs imposed by the three member countries of the USMCA on each other, which are hurting some of our customers and suppliers, and which have a relatively modest impact on our profitability, and we will continue to advocate accordingly."

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 third quarter ended September 30, 2018 ("MD&A"), the Company's interim condensed consolidated financial statements for the third quarter ended September 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.

(1) 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".

OVERALL RESULTS

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

		Three months ended September 30, 2018		Three months ended September 30, 2017	$ Change	% Change
Sales	$	851,136	$	838,535	12,601	1.5%
Gross Margin		127,130		113,418	13,712	12.1%
Operating Income		58,449		50,106	8,343	16.7%
Net Income for the period		36,381		36,022	359	1.0%
Net Income Attributable to Equity Holders of the Company	$	36,381	$	36,229	152	0.4%
Net Earnings per Share - Basic and Diluted	$	0.42	$	0.42	-	-
Non-IFRS Measures*						
Adjusted Operating Income	$	58,449	$	51,873	6,576	12.7%
% of Sales		*6.9%*		*6.2%*		
Adjusted EBITDA		103,744		92,409	11,335	12.3%
% of Sales		*12.2%*		*11.0%*		
Adjusted Net Income Attributable to Equity Holders of the Company		37,169		36,263	906	2.5%
Adjusted Net Earnings per Share - Basic and Diluted	$	0.43	$	0.42	0.01	2.4%

		Nine months ended September 30, 2018		Nine months ended September 30, 2017	$ Change	% Change
Sales	$	2,736,746	$	2,811,857	(75,111)	(2.7%)
Gross Margin		421,594		360,559	61,035	16.9%
Operating Income		218,565		179,097	39,468	22.0%
Net Income for the period		148,067		126,900	21,167	16.7%
Net Income Attributable to Equity Holders of the Company	$	148,067	$	127,177	20,890	16.4%
Net Earnings per Share - Basic	$	1.71	$	1.47	0.24	16.3%
Net Earnings per Share - Diluted	$	1.70	$	1.47	0.23	15.6%
Non-IFRS Measures*						
Adjusted Operating Income	$	218,565	$	175,166	43,399	24.8%
% of Sales		*8.0%*		*6.2%*		
Adjusted EBITDA		349,438		295,663	53,775	18.2%
% of Sales		*12.8%*		*10.5%*		
Adjusted Net Income Attributable to Equity Holders of the Company		149,326		122,340	26,986	22.1%
Adjusted Net Earnings per Share - Basic	$	1.72	$	1.41	0.31	22.0%
Adjusted Net Earnings per Share - Diluted	$	1.71	$	1.41	0.30	21.5%

***Non-IFRS Measures**

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

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

		Three months ended September 30, 2018		Three months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$	36,381	$	36,229
Unusual and Other Items (after-tax)*		788		34
Adjusted Net Income Attributable to Equity Holders of the Company	$	37,169	$	36,263

		Nine months ended September 30, 2018		Nine months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$	148,067	$	127,177
Unusual and Other Items (after-tax)*		1,259		(4,837)
Adjusted Net Income Attributable to Equity Holders of the Company	$	149,326	$	122,340

**Unusual and other items are explained in the "Adjustments to Net Income" section of this press release*

		Three months ended September 30, 2018		Three months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$	36,381	$	36,229
Non-controlling interest		-		(207)
Income tax expense		12,236		10,348
Other finance expense (income) - excluding Unusual and Other Items*		1,994		(340)
Finance expense		6,937		5,451
Unusual and Other Items (before-tax)*		901		392
Adjusted Operating Income	$	58,449	$	51,873
Depreciation of property, plant and equipment		41,787		36,873
Amortization of intangible assets		3,349		3,897
Loss (gain) on disposal of property, plant and equipment		159		(234)
Adjusted EBITDA	$	103,744	$	92,409

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$ 148,067	$ 127,177
Non-controlling interest	-	(277)
Income tax expense	48,254	37,863
Other finance expense (income) - excluding Unusual and Other Items*	460	(1,083)
Finance expense	20,345	16,792
Unusual and Other Items (before-tax)*	1,439	(5,306)
Adjusted Operating Income	$ 218,565	$ 175,166
Depreciation of property, plant and equipment	120,345	109,401
Amortization of intangible assets	10,159	11,623
Loss (gain) on disposal of property, plant and equipment	369	(527)
Adjusted EBITDA	$ 349,438	$ 295,663

**Unusual and other items are explained in the "Adjustments to Net Income" section of this press release*

SALES

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
North America	$ 648,649	$ 646,895	1,754	0.3%
Europe	171,902	165,140	6,762	4.1%
Rest of the World	33,542	30,319	3,223	10.6%
Eliminations	(2,957)	(3,819)	862	22.6%
Total Sales	$ 851,136	$ 838,535	12,601	1.5%

The Company’s consolidated sales for the third quarter of 2018 increased by $12.6 million or 1.5% to $851.1 million as compared to $838.5 million for the third quarter of 2017. Sales increased year-over-year across all operating segments.

Sales for the third quarter of 2018 in the Company’s North America operating segment increased by $1.8 million or 0.3% to $648.6 million from $646.9 million for the third quarter of 2017. The increase was due to the launch of new programs during or subsequent to the third quarter of 2017, including the next generation GM Equinox/Terrain and SiIverado/Sierra pick-up truck; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the third quarter of 2018 of approximately $10.4 million as compared to the third quarter of 2017; and an increase in tooling sales of $6.0 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the third quarter of 2017 such as the previous versions of the GM Equinox/Terrain and Silverado/Sierra pick-up truck.

Sales for the third quarter of 2018 in the Company's Europe operating segment increased by $6.8 million or 4.1% to $171.9 million from $165.1 million for the third quarter of 2017. The increase can be attributed to the launch of new programs during or subsequent to the third quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.3 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the third quarter of 2017; and a $1.4 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Landrover platforms and the Ford Mondeo in Europe.

Sales for the third quarter of 2018 in the Company's Rest of the World operating segment increased by $3.2 million or 10.6% to $33.5 million from $30.3 million in the third quarter of 2017. The increase was due to a $2.0 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 for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $1.9 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the third quarter of 2017 and lower year-over-year production volumes on the Ford Mondeo in China.

Overall tooling sales increased by $9.4 million to $48.0 million for the third quarter of 2018 from $38.6 million for the third quarter of 2017.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

		Nine months ended September 30, 2018		**Nine months ended September 30, 2017**	**$ Change**	**% Change**
North America	$	2,091,651	$	2,238,933	(147,282)	(6.6%)
Europe		546,328		493,080	53,248	10.8%
Rest of the World		107,751		90,163	17,588	19.5%
Eliminations		(8,984)		(10,319)	1,335	(12.9%)
Total Sales	$	2,736,746	$	2,811,857	(75,111)	(2.7%)

The Company's consolidated sales for the nine months ended September 30, 2018 decreased by $75.1 million or 2.7% to $2,736.7 million as compared to $2,811.9 million for the nine months ended September 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 nine months ended September 30, 2018 in the Company's North America operating segment decreased by $147.3 million or 6.6% to $2,091.7 million from $2,238.9 million for the nine months ended September 30, 2017. The decrease was due to lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chevrolet Malibu, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the nine months ended September 30, 2017 such as the previous versions of the GM Equinox/Terrain and Silverado/Sierra pick-up truck; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the nine months ended September 30, 2018 of approximately $44.0 million as compared to the corresponding period of 2017; 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 nine months ended September 30, 2017, including the next generation GM Equinox/Terrain and Silverado/Sierra pick-up truck, and an increase in tooling sales of $20.5 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the nine months ended September 30, 2018 in the Company's Europe operating segment increased by $53.2 million or 10.8% to $546.3 million from $493.1 million for the nine months ended September 30 2017. The increase can be attributed to the launch of new programs during or subsequent to the nine months ended September 30, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2018 of $28.5 million as compared to the corresponding period of 2017; and a $9.2 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Landrover platforms and the Ford Mondeo in Europe.

Sales for the nine months ended September 30, 2018 in the Company's Rest of the World operating segment increased by $17.6 million or 19.5% to $107.8 million from $90.2 million for the nine months ended September 30, 2017. The increase was due to an $11.0 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 for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $3.4 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to corresponding period of 2017 and lower year-over-year production volumes on the Ford Mondeo in China.

Overall tooling sales increased by $41.9 million to $184.0 million for the nine months ended September 30, 2018 from $142.1 million for the nine months ended September 30, 2017.

GROSS MARGIN

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
Gross margin	$ 127,130	$ 113,418	13,712	12.1%
% of Sales	14.9%	13.5%		

The gross margin percentage for the third quarter of 2018 of 14.9% increased as a percentage of sales by 1.4% as compared to the gross margin percentage for the third quarter of 2017 of 13.5%. 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 third 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 new business in the process of being launched, and higher tariffs on steel.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Gross margin	$ 421,594	$ 360,559	61,035	16.9%
% of Sales	15.4%	12.8%		

The gross margin percentage for the nine months ended September 30, 2018 of 15.4% increased as a percentage of sales by 2.6% as compared to the gross margin percentage for the nine months ended September 30, 2017 of 12.8%. Consistent with the year-over-year increase in the third quarter of 2018 as explained above, the increase in gross margin for the nine months ended September 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 nine months ended September 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 new business in the process of being launched; higher tariffs on steel; 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 September 30, 2018 to three months ended September 30, 2017 comparison

	For the three months ended September 30, 2018 (a)	For the three months ended September 30, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$36,381**	**$36,229**	**$152**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (2)	901	(1,375)	2,276
Executive separation agreement (3)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$901**	**$392**	**$509**
Tax impact of above items	(113)	(358)	245
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	**$788**	**$34**	**$754**
ADJUSTED NET INCOME (A + B)	**$37,169**	**$36,263**	**$906**
Number of Shares Outstanding - Basic ('000)	86,685	86,512	
Adjusted Basic Net Earnings Per Share	$0.43	$0.42	
Number of Shares Outstanding - Diluted ('000)	87,096	86,794	
Adjusted Diluted Net Earnings Per Share	$0.43	$0.42	

TABLE B

Nine months ended September 30, 2018 to nine months ended September 30, 2017

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	(a)-(b)
	(a)	(b)	Change
NET INCOME (A)	**$148,067**	**$127,177**	**$20,890**
Add Back - Unusual and Other Items:			
Gain on sale of land and building (1)	-	(5,698)	5,698
Unrealized loss (gain) on derivative instruments (2)	1,439	(1,375)	2,814
Executive separation agreement (3)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$1,439**	**($5,306)**	**$6,745**
Tax impact of above items	(180)	469	(649)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	**$1,259**	**($4,837)**	**$6,096**
ADJUSTED NET INCOME (A + B)	**$149,326**	**$122,340**	**$26,986**
Number of Shares Outstanding - Basic (‘000)	86,790	86,505	
Adjusted Basic Net Earnings Per Share	$1.72	$1.41	
Number of Shares Outstanding - Diluted (‘000)	87,360	86,739	
Adjusted Diluted Net Earnings Per Share	$1.71	$1.41	

(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 loss (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 condensed 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 September 30, 2018, the warrants had a fair value of $2.7 million. Based on the fair value of the warrants as at September 30, 2018, an unrealized loss of $0.9 million was recognized in the third quarter of 2018 and an unrealized gain of $1.4 million was recognized for the nine months ended September 30, 2018. As at September 30, 2017, the warrants had a fair value of $1.7 million which resulted in an unrealized gain of $1.4 million for the third quarter of 2017. The unrealized loss (gain) is recorded in other finance income (expense) and has been added back for Adjusted Net Income purposes.

(3) Executive separation agreement

During the third quarter of 2017, David Rashid ceased to be an Executive Vice President of Operations of the Company. The costs added back for Adjusted Net Income purposes represents Mr. Rashid's termination benefits (included in SG&A expense) as set out in his employment contract payable over a twelve-month period.

NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

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

		Three months ended September 30, 2018		Three months ended September 30, 2017	$ Change	% Change
Net Income	$	36,381	$	36,229	152	0.4%
Adjusted Net Income	$	37,169	$	36,263	906	2.5%
Net Earnings per Share						
Basic and Diluted	$	0.42	$	0.42		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.43	$	0.42		

Net income, before adjustments, for the third quarter of 2018 increased by $0.2 million to $36.4 million from $36.2 million for the third quarter of 2017. Excluding the unusual and other items recognized during the third quarter of 2018 and 2017, as explained in Table A under "Adjustments to Net Income", net income for the third quarter of 2018 increased to $37.2 million or $0.43 per share, on a basic and diluted basis, from $36.2 million or $0.42 per share, on a basic and diluted basis, for the third quarter of 2017.

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

- higher gross profit on increased 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 subsequent to the third quarter of 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- 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 revolving bank debt as a result of increased borrowing rates;
- a net unrealized foreign exchange loss of $2.1 million for the third quarter of 2018 compared to a net unrealized foreign exchange gain of $0.2 million for the third quarter of 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.9% for the third quarter of 2018 compared to 22.9% for the third quarter of 2017).

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

		Nine months ended September 30, 2018		Nine months ended September 30, 2017	$ Change	% Change
Net Income	$	148,067	$	127,177	20,890	16.4%
Adjusted Net Income	$	149,326	$	122,340	26,986	22.1%
Net Earnings per Share						
Basic	$	1.71	$	1.47		
Diluted	$	1.70	$	1.47		
Adjusted Net Earnings per Share						
Basic	$	1.72	$	1.41		
Diluted	$	1.71	$	1.41		

Net Income, before adjustments, for the nine months ended September 30, 2018 increased by $20.9 million to $148.1 million from $127.2 million for the nine months ended September 30, 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the nine months ended September 30, 2018 and 2017 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the nine months ended September 30, 2018 increased to $149.3 million or $1.71 per share, on a basic basis, and $1.70 on a diluted basis, from $122.3 million or $1.41 per share, on a basic and diluted basis, for the nine months ended September 30, 2017.

Adjusted Net Income for the nine months ended September 30, 2018, as compared to the nine months ended September 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; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to nine months ended September 30, 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- 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 revolving bank debt as a result of increased borrowing rates;
- a net unrealized foreign exchange loss of $0.7 million for the nine months ended September 30, 2018 compared to a net unrealized foreign exchange gain of $0.8 million for the nine months ended September 30, 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.5% for the nine months ended September 30, 2018 compared to 23.5% for the nine months ended September 30, 2017).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

		Three months ended September 30, 2018		Three months ended September 30, 2017	$ Change	% Change
Additions to PP&E	$	62,591	$	56,373	6,218	11.0%

Additions to PP&E increased by $6.2 million to $62.6 million or 7.4% of sales in the third quarter of 2018 from $56.4 million or 6.7% of sales in the third 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.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Additions to PP&E	$ 182,502	$ 168,105	14,397	8.6%

Additions to PP&E increased by $14.4 million year-over-year to $182.5 million or 6.7% of sales for the nine months ended September 30, 2018 compared to $168.1 million or 6.0% of sales for the nine months ended September 30, 2017 generally due 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 December 31, 2018, on or about January 15, 2019.

ABOUT MARTINREA

Martinrea currently employs approximately 15,000 skilled and motivated people in 45 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 Friday, November 9, 2018 at 8:00am. (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 Ganesh Iyer 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 - 8453232#). The rebroadcast will be available until November 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, strength of the Company, 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, pursuit of its strategies, the intention to purchase shares under the normal course issuer bid, the payment of dividends, statements regarding the USMCA and tariffs, 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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Fax: (289) 982-3001

MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the three and nine months ended September 30, 2018

The following management discussion and analysis ("MD&A") was prepared as of November 8, 2018 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 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 45 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 nine months ended September 30, 2018 and 2017. Refer to the Company's interim consolidated financial statements for the three and nine months ended September 30, 2018 for a detailed account of the Company's performance for the periods presented in the tables below.

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
Sales	$ 851,136	$ 838,535	12,601	1.5%
Gross Margin	127,130	113,418	13,712	12.1%
Operating Income	58,449	50,106	8,343	16.7%
Net Income for the period	36,381	36,022	359	1.0%
Net Income Attributable to Equity Holders of the Company	$ 36,381	$ 36,229	152	0.4%
Net Earnings per Share - Basic and Diluted	$ 0.42	$ 0.42	-	-
Non-IFRS Measures*				
Adjusted Operating Income	$ 58,449	$ 51,873	6,576	12.7%
% of Sales	*6.9%*	*6.2%*		
Adjusted EBITDA	103,744	92,409	11,335	12.3%
% of Sales	*12.2%*	*11.0%*		
Adjusted Net Income Attributable to Equity Holders of the Company	37,169	36,263	906	2.5%
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.43	$ 0.42	0.01	2.4%

		Nine months ended September 30, 2018		Nine months ended September 30, 2017	$ Change	% Change
Sales	$	2,736,746	$	2,811,857	(75,111)	(2.7%)
Gross Margin		421,594		360,559	61,035	16.9%
Operating Income		218,565		179,097	39,468	22.0%
Net Income for the period		148,067		126,900	21,167	16.7%
Net Income Attributable to Equity Holders of the Company	$	148,067	$	127,177	20,890	16.4%
Net Earnings per Share - Basic	$	1.71	$	1.47	0.24	16.3%
Net Earnings per Share - Diluted	$	1.70	$	1.47	0.23	15.6%
Non-IFRS Measures*						
Adjusted Operating Income	$	218,565	$	175,166	43,399	24.8%
% of Sales		*8.0%*		*6.2%*		
Adjusted EBITDA		349,438		295,663	53,775	18.2%
% of Sales		*12.8%*		*10.5%*		
Adjusted Net Income Attributable to Equity Holders of the Company		149,326		122,340	26,986	22.1%
Adjusted Net Earnings per Share - Basic	$	1.72	$	1.41	0.31	22.0%
Adjusted Net Earnings per Share - Diluted	$	1.71	$	1.41	0.30	21.5%

*Non-IFRS Measures

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

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

		Three months ended September 30, 2018		Three months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$	36,381	$	36,229
Unusual and Other Items (after-tax)*		788		34
Adjusted Net Income Attributable to Equity Holders of the Company	$	37,169	$	36,263

		Nine months ended September 30, 2018		Nine months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$	148,067	$	127,177
Unusual and Other Items (after-tax)*		1,259		(4,837)
Adjusted Net Income Attributable to Equity Holders of the Company	$	149,326	$	122,340

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

	Three months ended September 30, 2018	Three months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$ 36,381	$ 36,229
Non-controlling interest	-	(207)
Income tax expense	12,236	10,348
Other finance expense (income) - excluding Unusual and Other Items*	1,994	(340)
Finance expense	6,937	5,451
Unusual and Other Items (before-tax)*	901	392
Adjusted Operating Income	$ 58,449	$ 51,873
Depreciation of property, plant and equipment	41,787	36,873
Amortization of intangible assets	3,349	3,897
Loss (gain) on disposal of property, plant and equipment	159	(234)
Adjusted EBITDA	$ 103,744	$ 92,409

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net Income Attributable to Equity Holders of the Company	$ 148,067	$ 127,177
Non-controlling interest	-	(277)
Income tax expense	48,254	37,863
Other finance expense (income) - excluding Unusual and Other Items*	460	(1,083)
Finance expense	20,345	16,792
Unusual and Other Items (before-tax)*	1,439	(5,306)
Adjusted Operating Income	$ 218,565	$ 175,166
Depreciation of property, plant and equipment	120,345	109,401
Amortization of intangible assets	10,159	11,623
Loss (gain) on disposal of property, plant and equipment	369	(527)
Adjusted EBITDA	$ 349,438	$ 295,663

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

SALES

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
North America	$ 648,649	$ 646,895	1,754	0.3%
Europe	171,902	165,140	6,762	4.1%
Rest of the World	33,542	30,319	3,223	10.6%
Eliminations	(2,957)	(3,819)	862	22.6%
Total Sales	$ 851,136	$ 838,535	12,601	1.5%

The Company's consolidated sales for the third quarter of 2018 increased by $12.6 million or 1.5% to $851.1 million as compared to $838.5 million for the third quarter of 2017. Sales increased year-over-year across all operating segments.

Sales for the third quarter of 2018 in the Company's North America operating segment increased by $1.8 million or 0.3% to $648.6 million from $646.9 million for the third quarter of 2017. The increase was due to the launch of new programs during or subsequent to the third quarter of 2017, including the next generation GM Equinox/Terrain and SiIverado/Sierra pick-up truck; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the third quarter of 2018 of approximately $10.4 million as compared to the third quarter of 2017; and an increase in tooling sales of $6.0 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the third quarter of 2017 such as the previous versions of the GM Equinox/Terrain and Silverado/Sierra pick-up truck.

Sales for the third quarter of 2018 in the Company's Europe operating segment increased by $6.8 million or 4.1% to $171.9 million from $165.1 million for the third quarter of 2017. The increase can be attributed to the launch of new programs during or subsequent to the third quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.3 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the third quarter of 2017; and a $1.4 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Landrover platforms and the Ford Mondeo in Europe.

Sales for the third quarter of 2018 in the Company's Rest of the World operating segment increased by $3.2 million or 10.6% to $33.5 million from $30.3 million in the third quarter of 2017. The increase was due to a $2.0 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 for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $1.9 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the third quarter of 2017 and lower year-over-year production volumes on the Ford Mondeo in China.

Overall tooling sales increased by $9.4 million to $48.0 million for the third quarter of 2018 from $38.6 million for the third quarter of 2017.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
North America	$ 2,091,651	$ 2,238,933	(147,282)	(6.6%)
Europe	546,328	493,080	53,248	10.8%
Rest of the World	107,751	90,163	17,588	19.5%
Eliminations	(8,984)	(10,319)	1,335	(12.9%)
Total Sales	$ 2,736,746	$ 2,811,857	(75,111)	(2.7%)

The Company's consolidated sales for the nine months ended September 30, 2018 decreased by $75.1 million or 2.7% to $2,736.7 million as compared to $2,811.9 million for the nine months ended September 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 nine months ended September 30, 2018 in the Company's North America operating segment decreased by $147.3 million or 6.6% to $2,091.7 million from $2,238.9 million for the nine months ended September 30, 2017. The decrease was due to lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chevrolet Malibu, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the nine months ended September 30, 2017 such as the previous versions of the GM Equinox/Terrain and Silverado/Sierra pick-up truck; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the nine months ended September 30, 2018 of approximately $44.0 million as compared to the corresponding period of 2017; 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 nine months ended September 30, 2017, including the next generation GM Equinox/Terrain and Silverado/Sierra pick-up truck, and an increase in tooling sales of $20.5 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the nine months ended September 30, 2018 in the Company's Europe operating segment increased by $53.2 million or 10.8% to $546.3 million from $493.1 million for the nine months ended September 30 2017. The increase can be attributed to the launch of new programs during or subsequent to the nine months ended September 30, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2018 of $28.5 million as compared to the corresponding period of 2017; and a $9.2 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Landrover platforms and the Ford Mondeo in Europe.

Sales for the nine months ended September 30, 2018 in the Company's Rest of the World operating segment increased by $17.6 million or 19.5% to $107.8 million from $90.2 million for the nine months ended September 30, 2017. The increase was due to an $11.0 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 for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $3.4 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to corresponding period of 2017 and lower year-over-year production volumes on the Ford Mondeo in China.

Overall tooling sales increased by $41.9 million to $184.0 million for the nine months ended September 30, 2018 from $142.1 million for the nine months ended September 30, 2017.

GROSS MARGIN

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
Gross margin	$ 127,130	$ 113,418	13,712	12.1%
% of Sales	14.9%	13.5%		

The gross margin percentage for the third quarter of 2018 of 14.9% increased as a percentage of sales by 1.4% as compared to the gross margin percentage for the third quarter of 2017 of 13.5%. 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 third 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 new business in the process of being launched, and higher tariffs on steel.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Gross margin	$ 421,594	$ 360,559	61,035	16.9%
% of Sales	15.4%	12.8%		

The gross margin percentage for the nine months ended September 30, 2018 of 15.4% increased as a percentage of sales by 2.6% as compared to the gross margin percentage for the nine months ended September 30, 2017 of 12.8%. Consistent with the year-over-year increase in the third quarter of 2018 as explained above, the increase in gross margin for the nine months ended September 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 nine months ended September 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 new business in the process of being launched; higher tariffs on steel; and an increase in tooling sales which typically earn low margins for the Company.

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

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

	Three months ended September 30, 2018		Three months ended September 30, 2017		$ Change	% Change
Selling, general and administrative	$	59,088	$	53,864	5,224	9.7%
% of Sales		6.9%		6.4%		

SG&A expense, before adjustments, for the third quarter of 2018 increased by $5.2 million to $59.1 million as compared to $53.9 million for the third quarter of 2017. Excluding the unusual and other items recorded in SG&A expense incurred during the third quarter of 2017, as explained in table A under "Adjustments to Net Income", SG&A expense for the third quarter of 2018 increased by $7.0 million year-over-year to $59.1 million from $52.1 million for the comparative period 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. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018		Nine months ended September 30, 2017		$ Change	% Change
Selling, general and administrative	$	173,950	$	159,002	14,948	9.4%
% of Sales		6.4%		5.7%		

SG&A expense, before adjustments, for the nine months ended September 30, 2018 increased by $14.9 million to $174.0 million as compared to $159.0 million for the nine months ended September 30, 2017. Excluding the unusual and other items recorded in SG&A expense incurred during the nine months ended September 30, 2017, as explained in Table B under "Adjustments to Net Income", SG&A expense for the nine months ended September 30, 2018 increased by $16.8 million to $174.0 from $157.2 million for the comparative period 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.

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

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

	Three months ended September 30, 2018		Three months ended September 30, 2017		$ Change	% Change
Depreciation of PP&E (production)	$	39,118	$	34,488	4,630	13.4%
Depreciation of PP&E (non-production)		2,669		2,385	284	11.9%
Amortization of customer contracts and relationships		537		552	(15)	(2.7%)
Amortization of development costs		2,812		3,345	(533)	(15.9%)
Total depreciation and amortization	$	45,136	$	40,770	4,366	10.7%

Total depreciation and amortization expense for the third quarter of 2018 increased by $4.4 million to $45.1 million as compared to $40.8 million for the third 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 third quarter of 2017.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the third 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 growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-over to 4.6% for the third quarter of 2018 from 4.1% for the third quarter of 2017 due to recent investments put into production.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Depreciation of PP&E (production)	$ 112,615	$ 102,345	10,270	10.0%
Depreciation of PP&E (non-production)	7,730	7,056	674	9.6%
Amortization of customer contracts and relationships	1,605	1,632	(27)	(1.7%)
Amortization of development costs	8,554	9,991	(1,437)	(14.4%)
Total depreciation and amortization	$ 130,504	$ 121,024	9,480	7.8%

Total depreciation and amortization expense for the nine months ended September 30, 2018 increased by $9.5 million to $130.5 million as compared to $121.0 million for the nine months ended September 30, 2017. Consistent with the year-over-year increase in the third quarter of 2018 as explained above, the increase in total depreciation and amortization expense for the nine months ended September 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 nine months ended September 30, 2017.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 4.1% for the nine months ended September 30, 2018 from 3.6% for the nine months ended September 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 September 30, 2018 to three months ended September 30, 2017 comparison

	For the three months ended September 30, 2018 (a)	For the three months ended September 30, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$36,381**	**$36,229**	**$152**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (2)	901	(1,375)	2,276
Executive separation agreement (3)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$901**	**$392**	**$509**
Tax impact of above items	(113)	(358)	245
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	**$788**	**$34**	**$754**
ADJUSTED NET INCOME (A + B)	**$37,169**	**$36,263**	**$906**
Number of Shares Outstanding - Basic ('000)	86,685	86,512	
Adjusted Basic Net Earnings Per Share	$0.43	$0.42	
Number of Shares Outstanding - Diluted ('000)	87,096	86,794	
Adjusted Diluted Net Earnings Per Share	$0.43	$0.42	

TABLE B

Nine months ended September 30, 2018 to nine months ended September 30, 2017

	For the nine months ended September 30, 2018 (a)	For the nine months ended September 30, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$148,067**	**$127,177**	**$20,890**
Add Back - Unusual and Other Items:			
Gain on sale of land and building (1)	-	(5,698)	5,698
Unrealized loss (gain) on derivative instruments (2)	1,439	(1,375)	2,814
Executive separation agreement (3)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$1,439**	**($5,306)**	**$6,745**
Tax impact of above items	(180)	469	(649)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)	**$1,259**	**($4,837)**	**$6,096**
ADJUSTED NET INCOME (A + B)	**$149,326**	**$122,340**	**$26,986**
Number of Shares Outstanding - Basic ('000)	86,790	86,505	
Adjusted Basic Net Earnings Per Share	$1.72	$1.41	
Number of Shares Outstanding - Diluted ('000)	87,360	86,739	
Adjusted Diluted Net Earnings Per Share	$1.71	$1.41	

(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 loss (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 condensed 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 September 30, 2018, the warrants had a fair value of $2.7 million. Based on the fair value of the warrants as at September 30, 2018, an unrealized loss of $0.9 million was recognized in the third quarter of 2018 and an unrealized gain of $1.4 million was recognized for the nine months ended September 30, 2018. As at September 30, 2017, the warrants had a fair value of $1.7 million which resulted in an unrealized gain of $1.4 million for the third quarter of 2017. The unrealized loss (gain) is recorded in other finance income (expense) and has been added back for Adjusted Net Income purposes.

(3) Executive separation agreement

During the third quarter of 2017, David Rashid ceased to be an Executive Vice President of Operations of the Company. The costs added back for Adjusted Net Income purposes represents Mr. Rashid’s termination benefits (included in SG&A expense) as set out in his employment contract payable over a twelve-month period.

NET INCOME
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)

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

		Three months ended September 30, 2018		Three months ended September 30, 2017	$ Change	% Change
Net Income	$	36,381	$	36,229	152	0.4%
Adjusted Net Income	$	37,169	$	36,263	906	2.5%
Net Earnings per Share						
Basic and Diluted	$	0.42	$	0.42		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.43	$	0.42		

Net income, before adjustments, for the third quarter of 2018 increased by $0.2 million to $36.4 million from $36.2 million for the third quarter of 2017. Excluding the unusual and other items recognized during the third quarter of 2018 and 2017, as explained in Table A under “Adjustments to Net Income”, net income for the third quarter of 2018 increased to $37.2 million or $0.43 per share, on a basic and diluted basis, from $36.2 million or $0.42 per share, on a basic and diluted basis, for the third quarter of 2017.

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

- higher gross profit on increased 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 subsequent to the third quarter of 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- 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 revolving bank debt as a result of increased borrowing rates;
- a net unrealized foreign exchange loss of $2.1 million for the third quarter of 2018 compared to a net unrealized foreign exchange gain of $0.2 million for the third quarter of 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.9% for the third quarter of 2018 compared to 22.9% for the third quarter of 2017).

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

On August 8, 2018, the Company provided the following guidance for the third quarter of 2018:

		Guidance		Actual
Production sales (in millions)	$	790 - 830	$	803
Adjusted Net Earnings per Share				
Basic and Diluted	$	0.43 - 0.47	$	0.43

For the third quarter of 2018, production sales of $803 million were within the published sales guidance range. Adjusted Net Earnings per Share for the third quarter of $0.43 was also within the published earnings guidance range but at the lower end due to a $2.1 million net unrealized foreign exchange loss recognized in the quarter.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

		Nine months ended September 30, 2018		Nine months ended September 30, 2017	$ Change	% Change
Net Income	$	148,067	$	127,177	20,890	16.4%
Adjusted Net Income	$	149,326	$	122,340	26,986	22.1%
Net Earnings per Share						
Basic	$	1.71	$	1.47		
Diluted	$	1.70	$	1.47		
Adjusted Net Earnings per Share						
Basic	$	1.72	$	1.41		
Diluted	$	1.71	$	1.41		

Net Income, before adjustments, for the nine months ended September 30, 2018 increased by $20.9 million to $148.1 million from $127.2 million for the nine months ended September 30, 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the nine months ended September 30, 2018 and 2017 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the nine months ended September 30, 2018 increased to $149.3 million or $1.71 per share, on a basic basis, and $1.70 on a diluted basis, from $122.3 million or $1.41 per share, on a basic and diluted basis, for the nine months ended September 30, 2017.

Adjusted Net Income for the nine months ended September 30, 2018, as compared to the nine months ended September 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; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to nine months ended September 30, 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- 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 revolving bank debt as a result of increased borrowing rates;
- a net unrealized foreign exchange loss of $0.7 million for the nine months ended September 30, 2018 compared to a net unrealized foreign exchange gain of $0.8 million for the nine months ended September 30, 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.5% for the nine months ended September 30, 2018 compared to 23.5% for the nine months ended September 30, 2017).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
Additions to PP&E	$ 62,591	$ 56,373	6,218	11.0%

Additions to PP&E increased by $6.2 million to $62.6 million or 7.4% of sales in the third quarter of 2018 from $56.4 million or 6.7% of sales in the third 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.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Additions to PP&E	$ 182,502	$ 168,105	14,397	8.6%

Additions to PP&E increased by $14.4 million year-over-year to $182.5 million or 6.7% of sales for the nine months ended September 30, 2018 compared to $168.1 million or 6.0% of sales for the nine months ended September 30, 2017 generally due 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 September 30, 2018 to three months ended September 30, 2017 comparison

	SALES				OPERATING INCOME (LOSS)			
		Three months ended September 30, 2018		Three months ended September 30, 2017		Three months ended September 30, 2018		Three months ended September 30, 2017
North America	$	648,649	$	646,895	$	52,237	$	44,226
Europe		171,902		165,140		6,164		9,034
Rest of the World		33,542		30,319		48		(1,387)
Eliminations		(2,957)		(3,819)		-		-
Adjusted Operating Income		-		-	$	58,449	$	51,873
Unusual and Other Items*		-		-		-		(1,767)
Total	$	851,136	$	838,535	$	58,449	$	50,106

** Operating income for the operating segments has been adjusted for unusual and other items. The $1.8 million of unusual and other items for the third quarter of 2017 was recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

North America

Adjusted Operating Income in North America increased by $8.0 million to $52.2 million or 8.1% of sales for the third quarter of 2018 from $44.2 million or 6.8% of sales for the third quarter of 2017. 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 third quarter of 2017; partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe decreased by $2.8 million to $6.2 million or 3.6% of sales for the third quarter of 2018 from $9.0 million or 5.5% of sales for the third quarter of 2017 despite higher year-over-year sales as previously discussed. Adjusted Operating Income in Europe was negatively impacted by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and general sales mix including lower year-over-year production volumes on certain platforms.

Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year due essentially to general sales mix and incremental contribution margin from the year-over-year increase in sales, partially offset by an increase in 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. As noted previously, the year-over-year increase in sales was due to a $2.0 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 for Jaguar Landrover in China, which began to ramp up in the first quarter of 2018; partially offset by a $1.9 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the third quarter of 2017 and lower year-over-year production volumes on the Ford Mondeo in China.

Nine months ended September 30, 2018 to nine months ended September 30, 2017 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Nine months ended September 30, 2018	**Nine months ended September 30, 2017**	**Nine months ended September 30, 2018**	**Nine months ended September 30, 2017**
North America	$ 2,091,651	$ 2,238,933	$ 180,864	$ 152,039
Europe	546,328	493,080	36,746	30,892
Rest of the World	107,751	90,163	955	(7,765)
Eliminations	(8,984)	(10,319)	-	-
Adjusted Operating Income	-	-	$ 218,565	$ 175,166
Unusual and Other Items*	-	-	-	3,931
Total	$ 2,736,746	$ 2,811,857	$ 218,565	$ 179,097

**Operating income for the operating segments has been adjusted for unusual and other items. The $3.9 million of unusual and other items for the nine months ended September 30, 2017 was recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

North America

Adjusted Operating Income in North America increased by $28.9 million to $180.9 million or 8.6% of sales for the nine months ended September 30, 2018 from $152.0 million or 6.8% of sales for the nine months ended September 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 nine months ended September 30, 2017; partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe increased by $5.8 million to $36.7 million or 6.7% of sales for the nine months ended September 30, 2018 from $30.9 million or 6.3% of sales for the nine months ended September 30, 2017 due to incremental margin contribution from a $53.2 million year-over-year increase in sales, partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and general sales mix including lower year-over-year production volumes on certain platforms. As noted previously, the year-over-year increase in sales can be attributed to the launch of new programs during or subsequent to the nine months ended September 30, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the nine months ended September 30, 2018 of $28.5 million as compared to the corresponding period of 2017; and a $9.2 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Landrover platforms and the Ford Mondeo in Europe.

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	851,136	921,710	963,900	878,642	838,535	972,772	1,000,550	990,407
Gross Margin	127,130	150,035	144,429	124,042	113,418	128,926	118,215	104,312
Net Income for the period	36,381	55,727	55,959	32,366	36,022	47,411	43,467	30,630
Net Income attributable to equity holders of the Company	36,381	55,727	55,959	32,366	36,229	47,346	43,602	30,753
Adjusted Net Income attributable to equity holders of the Company	37,169	55,527	56,630	43,179	36,263	47,346	38,731	30,753
Basic Net Earnings per Share	0.42	0.64	0.65	0.37	0.42	0.55	0.50	0.36
Diluted Net Earnings per Share	0.42	0.64	0.64	0.37	0.42	0.55	0.50	0.36
Adjusted Basic and Diluted Net Earnings per Share	0.43	0.64	0.65	0.50	0.42	0.55	0.45	0.36

***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 September 30, 2018, the Company had total equity of $1,102.2 million (December 31, 2017 - $958.5 million). As at September 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 $301.4 million at September 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-backed financing.

CASH FLOWS

	Three months ended September 30, 2018	Three months ended September 30, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 102,112	$ 92,487	9,625	10.4%
Change in non-cash working capital items	(9,605)	(17,487)	7,882	(45.1%)
	92,507	75,000	17,507	23.3%
Interest paid	(8,065)	(4,797)	(3,268)	68.1%
Income taxes paid	(16,675)	(10,597)	(6,078)	57.4%
Cash provided by operating activities	67,767	59,606	8,161	13.7%
Cash provided by (used in) financing activities	15,685	(7,214)	22,899	(317.4%)
Cash used in investing activities	(72,792)	(54,063)	(18,729)	34.6%
Effect of foreign exchange rate changes on cash and cash equivalents	(2,224)	(3,007)	783	(26.0%)
Increase (decrease) in cash and cash equivalents	$ 8,436	$ (4,678)	13,114	(280.3%)

Cash provided by operating activities during the third quarter of 2018 was $67.8 million, compared to cash provided by operating activities of $59.6 million in the corresponding period of 2017. The components for the third quarter of 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $102.1 million;
- working capital items use of cash of $9.6 million comprised of an increase in trade and other receivables of $35.8 million, an increase in inventories of $26.6 million, and an increase in prepaid expenses and deposits of $1.7 million; partially offset by an increase in trade, other payables and provisions of $54.5 million;
- interest paid (excluding capitalized interest) of $8.1 million; and
- income taxes paid of $16.7 million.

Cash provided by financing activities during the third quarter of 2018 was $15.7 million, compared to cash used in financing activities of $7.2 million in the corresponding period in 2017, as a result of a $27.8 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility of $33.1 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $5.3 million), and $0.8 million in proceeds from the exercise of employee stock options; partially offset by the repurchase of common shares by way of normal course issuer bid (as described in note 10 of the interim consolidated financial statements for the three and nine months ended September 30, 2018) of $9.0 million, and $3.9 million in dividends paid.

Cash used in investing activities during the third quarter of 2018 was $72.8 million, compared to $54.1 million in the corresponding period in 2017. The components for the third quarter of 2018 primarily include the following:

- cash additions to PP&E of $69.5 million;
- capitalized development costs relating to upcoming new program launches of $3.6 million; partially offset by
- the upfront recovery of development costs incurred of $0.2 million; and
- proceeds from the disposal of PP&E of $0.2 million.

Taking into account the opening cash balance of $75.3 million at the beginning of the third quarter of 2018, and the activities described above, the cash and cash equivalents balance at September 30, 2018 was $83.7 million.

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 350,231	$ 299,113	51,118	17.1%
Change in non-cash working capital items	(30,520)	(3,701)	(26,819)	724.6%
	319,711	295,412	24,299	8.2%
Interest paid	(22,309)	(14,761)	(7,548)	51.1%
Income taxes paid	(79,253)	(43,254)	(35,999)	83.2%
Cash provided by operating activities	218,149	237,397	(19,248)	(8.1%)
Cash provided by (used in) financing activities	21,137	(46,784)	67,921	(145.2%)
Cash used in investing activities	(228,009)	(193,239)	(34,770)	18.0%
Effect of foreign exchange rate changes on cash and cash equivalents	1,224	(4,074)	5,298	(130.0%)
Increase (decrease) in cash and cash equivalents	$ 12,501	$ (6,700)	19,201	(286.6%)

Cash provided by operating activities during the nine months ended September 30, 2018 was $218.1 million, compared to cash provided by operating activities of $237.4 million in the corresponding period of 2017. The components for the nine months ended September 30, 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $350.2 million;
- working capital items use of cash of $30.5 million comprised of an increase in trade and other receivables of $47.3 million, an increase in inventories of $85.8 million, and an increase in prepaid expenses and deposits of $5.4 million; partially offset by an increase in trade, other payables and provisions of $108.0 million;
- interest paid (excluding capitalized interest) of $22.3 million; and
- income taxes paid of $79.3 million.

Cash provided by financing activities during the nine months ended September 30, 2018 was $21.1 million, compared to cash used of $46.8 million in the corresponding period in 2017, as a result of a $37.4 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility and new equipment loans totalling $89.7 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $52.3 million), and $1.8 million in proceeds from the exercise of employee stock options; partially offset by the repurchase of common shares by way of normal course issuer bid (as described in note 10 of the interim consolidated financial statements for the three and nine months ended September 30, 2018) of $9.0 million, and $9.1 million in dividends paid.

Cash used in investing activities during the nine months ended September 30, 2018 was $228.0 million, compared to $193.2 million in the corresponding period in 2017. The components for the nine months ended September 30, 2018 primarily include the following:

- cash additions to PP&E of $220.8 million;
- capitalized development costs relating to upcoming new program launches of $10.1 million;
- an investment in NanoXplore Inc. (as described in note 6 of the interim consolidated financial statements for the three and nine months ended September 30, 2018) of $0.7 million; partially offset by
- the upfront recovery of development costs incurred of $2.4 million; and
- proceeds from the disposal of PP&E of $1.1 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 September 30, 2018 was $83.7 million.

Financing

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 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 backed 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 repayment provisions.

As at September 30, 2018, the Company had drawn $248.0 million (December 31, 2017 - $233.0 million) on the Canadian revolving credit line and US$286.0 million (December 31, 2017 - US$256.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) increased by $34.1 million from $582.8 million at December 31, 2017 to $616.9 million at September 30, 2018. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.35x at the end of the third quarter of 2018, from 1.45x at the end of 2017 and 1.59x at the end of the third quarter of 2017.

The Company was in compliance with its debt covenants as at September 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 to be $0.12 per share, to be paid in four quarterly payments of $0.03 per share. The first quarterly dividend payment of $0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter.

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 with 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 up to twenty-four months depending upon the duration of the tooling program. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At September 30, 2018, the amount of off-balance sheet program financing was $65.8 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 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.

In 2018, the U.S. imposed tariffs on steel, aluminum and other imports from certain countries, and during 2018 to date affected countries have taken a variety of retaliatory measures, which could directly or indirectly increase Martinrea's input costs, adversely affecting profitability. More specifically to the Company's business, the cost of steel and aluminum has increased as a direct or indirect result of U.S. tariffs, which has resulted in some extra cost to the Company for its steel and aluminum purchases, and several suppliers have requested and been granted increased prices. The overall impact of these tariffs has been modest to date, because most of the Company's steel and aluminum purchases in the U.S. are made domestically, are on customer steel resale programs or have market adjustment mechanisms. Further, the Company has received exemptions from most of the remaining U.S. tariffs. Similarly, the tariffs imposed by Canada and, to a lesser extent, Mexico, have resulted in higher costs to the Company for steel and aluminum in some areas. These costs are modest also. Depending on the final determinations of exemptive relief, the cost of higher tariffs in the third quarter to the Company was approximately $2 million. These costs would be reduced in future if the U.S., Canadian and Mexican tariffs on steel and aluminum were removed.

A broader potential implication of tariffs is that they add to the cost of vehicles or of vehicle parts, resulting in higher cost of vehicles, which could reduce demand for such vehicles, which could ultimately have a negative impact on the revenues and profits of the Company. Further escalation of international trade disputes could, among other things, weaken consumer confidence and demand, resulting in reduced production volumes; disrupt global supply chains; impair the ability of industry participants to make long-term investment decisions; and create volatility in foreign exchange rates; all of which could impair the Company's profitability.

On September 30, 2018, the U.S., Canada and Mexico reached a trilateral agreement on trade, the "USMCA", designed to replace the current North American Free Trade Agreement, which continues to apply until the USMCA is ratified. Among other things, the USMCA provides for several new automotive rules, including higher North American content rules and higher value labour content rules for vehicles made in North America. The Company believes that the signing of the USMCA, proposed to occur in late November, 2018, will provide some certainty to the North American automotive market, and will support North American automotive parts suppliers such as the Company. However, it is noted that the USMCA must be ratified by all three countries in order to come into effect, and such ratification, if it occurs, would likely not occur until 2019. There is still some uncertainty as to the final ratification, and what will occur if the USMCA is not ratified.

The uncertainties and risks created by trade agreement negotiation and the imposition and threatened imposition of tariffs has caused significant stock market volatility for automotive market participants, including the Company.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at November 8, 2018, the Company had 86,252,764 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at November 8, 2018, options to acquire 2,440,700 common shares were outstanding.

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

During the third quarter, the Company purchased for cancellation an aggregate of 643,720 common shares for an aggregate purchase price of $9.0 million, resulting in a reduction to stated capital of $5.3 million and a decrease to retained earnings of $3.7 million. The shares were purchased for cancellation directly under the NCIB.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended September 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 September 30, 2018, the amount of the off balance sheet program financing was $65.8 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 - 24 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 September 30, 2018, the Company had committed to trade the following foreign exchange 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
Buy Canadian Dollars	$	40,000	1.3003	1
Buy Mexican Peso	$	25,331	18.9494	1

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax gain of $0.7 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
Buy Canadian Dollars	$	64,000	1.2780	51

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax loss of $0.1 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 million 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 million 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 September 30, 2018, the warrants had a fair value of $2.7 million. Based on the fair value of the warrants as at September 30, 2018, an unrealized loss of $0.9 million was recognized for the three months ended September 30, 2018, and an unrealized loss of $1.4 million was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - unrealized gain of $1.4 million), 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 nine months ended September 30, 2018:

	2018 Acquisition	**September 30, 2018**
Expected volatility	66.87%	69.08%
Risk free interest rate	1.88%	2.20%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically quoted prices, with the change in fair value recorded in other comprehensive income. As at September 30, 2018, the common shares had a fair value of $9.5 million. Based on the fair value of the common shares at September 30, 2018, an unrealized loss of $1.8 million ($1.6 million net of tax) was recognized for the three months ended September 30, 2018, and an unrealized loss of $2.4 million ($2.1 million net of tax) was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - unrealized gain of $3.8 million, $3.3 million net of tax).

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 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 primarily from two categories of goods: production (including finished production parts and assemblies), 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

The Company periodically uses derivate 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 second 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.

<u>Amendments to IFRS 2, Share-Based Payments</u>

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:

<u>IFRS 16, Leases</u>

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. 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 is in the process of collecting and cataloguing all existing leases in order to analyze the impact of the new standard on existing leases. The adoption of IFRS 16 will result in operating lease liabilities and corresponding right-of-use assets being recognized on the consolidated statement of financial position. The adoption of IFRS 16 will also result in a decrease in operating rent expense and, increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The full extent of the impact has not yet been finalized.

<u>FORWARD–LOOKING INFORMATION</u>

<u>Special Note Regarding Forward-Looking Statements</u>

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, the impact of tariffs, the USMCA and trade disputes and negotiations on the automotive industry, global markets and the Company's profitability 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 <u>www.sedar.com</u>:

- 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 NINE MONTHS ENDED SEPTEMBER 30, 2018

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		September 30, 2018		December 31, 2017
ASSETS					
Cash and cash equivalents		$	83,694	$	71,193
Trade and other receivables	2		613,807		556,049
Inventories	3		466,953		376,972
Prepaid expenses and deposits			20,764		15,504
Income taxes recoverable			12,329		12,979
TOTAL CURRENT ASSETS			1,197,547		1,032,697
Property, plant and equipment	4		1,361,932		1,282,624
Deferred income tax assets			180,532		142,173
Intangible assets	5		67,155		68,414
Other assets	6		12,116		15,265
TOTAL NON-CURRENT ASSETS			1,621,735		1,508,476
TOTAL ASSETS		$	2,819,282	$	2,541,173
LIABILITIES					
Trade and other payables	7	$	825,878	$	741,549
Provisions	8		4,639		5,048
Income taxes payable			49,427		34,429
Current portion of long-term debt	9		16,202		24,795
TOTAL CURRENT LIABILITIES			896,146		805,821
Long-term debt	9		684,378		629,222
Pension and other post-retirement benefits			62,777		65,258
Deferred income tax liabilities			73,738		82,373
TOTAL NON-CURRENT LIABILITIES			820,893		776,853
TOTAL LIABILITIES			1,717,039		1,582,674
EQUITY					
Capital stock	10		710,549		713,425
Contributed surplus			41,677		41,981
Accumulated other comprehensive income			105,533		94,268
Retained earnings			244,484		108,825
TOTAL EQUITY			1,102,243		958,499
TOTAL LIABILITIES AND EQUITY		$	2,819,282	$	2,541,173

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
SALES		$ 851,136	$ 838,535	$ 2,736,746	$ 2,811,857
Cost of sales (excluding depreciation of property, plant and equipment)		(684,888)	(690,629)	(2,202,537)	(2,348,953)
Depreciation of property, plant and equipment (production)		(39,118)	(34,488)	(112,615)	(102,345)
Total cost of sales		(724,006)	(725,117)	(2,315,152)	(2,451,298)
GROSS MARGIN		127,130	113,418	421,594	360,559
Research and development costs		(6,228)	(6,745)	(19,375)	(19,997)
Selling, general and administrative		(59,088)	(53,864)	(173,950)	(159,002)
Depreciation of property, plant and equipment (non-production)		(2,669)	(2,385)	(7,730)	(7,056)
Amortization of customer contracts and relationships		(537)	(552)	(1,605)	(1,632)
Gain (loss) on disposal of property, plant and equipment		(159)	234	(369)	527
Gain on sale of land and building	4	-	-	-	5,698
OPERATING INCOME		58,449	50,106	218,565	179,097
Finance expense		(6,937)	(5,451)	(20,345)	(16,792)
Other finance income (expense)	13	(2,895)	1,715	(1,899)	2,458
INCOME BEFORE INCOME TAXES		48,617	46,370	196,321	164,763
Income tax expense	11	(12,236)	(10,348)	(48,254)	(37,863)
NET INCOME FOR THE PERIOD		$ 36,381	$ 36,022	$ 148,067	$ 126,900
Non-controlling interest		-	207	-	277
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$ 36,381	$ 36,229	$ 148,067	$ 127,177

Basic earnings per share	12	$ 0.42	$ 0.42	$ 1.71	$ 1.47
Diluted earnings per share	12	$ 0.42	$ 0.42	$ 1.70	$ 1.47

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
NET INCOME FOR THE PERIOD	$ 36,381	$ 36,022	$ 148,067	$ 126,900
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	(26,682)	(27,752)	13,143	(40,106)
Change in fair value of investments	(1,552)	3,336	(2,091)	3,336
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain in fair value of financial instruments	2,378	-	403	-
Reclassification of gains to net income	(219)	-	(190)	-
Items that will not be reclassified to net income				
Remeasurement of defined benefit plans	(595)	775	1,650	(2,954)
Other comprehensive income (loss), net of tax	(26,670)	(23,641)	12,915	(39,724)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 9,711	$ 12,381	$ 160,982	$ 87,176
Attributable to:				
Equity holders of the Company	9,711	12,588	160,982	87,453
Non-controlling interest	-	(207)	-	(277)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 9,711	$ 12,381	$ 160,982	$ 87,176

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	-	-	-	127,177	127,177	(277)	126,900
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	111	-	-	111	-	111
Dividends ($0.09 per share)	-	-	-	(7,788)	(7,788)	-	(7,788)
Exercise of employee stock options	284	(82)	-	-	202	-	202
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	(2,954)	(2,954)	-	(2,954)
Foreign currency translation differences	-	-	(40,106)	-	(40,106)	-	(40,106)
Change in fair value of investments	-	-	3,336	-	3,336	-	3,336
BALANCE AT SEPTEMBER 30, 2017	710,794	42,689	80,278	74,566	908,327	-	908,327
Net income for the period	-	-	-	32,366	32,366	-	32,366
Compensation expense related to stock options	-	12	-	-	12	-	12
Dividends ($0.03 per share)	-	-	-	(2,600)	(2,600)	-	(2,600)
Exercise of employee stock options	2,631	(720)	-	-	1,911	-	1,911
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	4,493	4,493	-	4,493
Foreign currency translation differences	-	-	9,369	-	9,369	-	9,369
Change in fair value of investments	-	-	4,621	-	4,621	-	4,621
BALANCE AT DECEMBER 31, 2017	713,425	41,981	94,268	108,825	958,499	-	958,499
Net income for the period	-	-	-	148,067	148,067	-	148,067
Compensation expense related to stock options	-	283	-	-	283	-	283
Dividends ($0.12 per share)	-	-	-	(10,396)	(10,396)	-	(10,396)
Exercise of employee stock options	2,422	(587)	-	-	1,835	-	1,835
Repurchase of common shares	(5,298)	-	-	(3,662)	(8,960)	-	(8,960)
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,650	1,650	-	1,650
Foreign currency translation differences	-	-	13,143	-	13,143	-	13,143
Change in fair value of investments	-	-	(2,091)	-	(2,091)	-	(2,091)
Cash flow hedging derivative and non-derivative financial instruments:							
Unrealized loss in fair value of financial instruments	-	-	403	-	403	-	403
Reclassification of losses to net income	-	-	(190)	-	(190)	-	(190)
BALANCE AT SEPTEMBER 30, 2018	$ 710,549	$ 41,677	$ 105,533	$ 244,484	$ 1,102,243	$ -	$ 1,102,243

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net Income for the period	$ 36,381	$ 36,022	$ 148,067	$ 126,900
Adjustments for:				
Depreciation of property, plant and equipment	41,787	36,873	120,345	109,401
Amortization of customer contracts and relationships	537	552	1,605	1,632
Amortization of development costs	2,812	3,345	8,554	9,991
Unrealized loss (gain) on foreign exchange forward contracts	(235)	331	(700)	781
Unrealized loss (gain) on derivative instruments (note 6)	901	(1,375)	1,439	(1,375)
Finance expense	6,937	5,451	20,345	16,792
Income tax expense	12,236	10,348	48,254	37,863
Loss (gain) on disposal of property, plant and equipment	159	(234)	369	(527)
Deferred and restricted share units expense	1,009	473	2,389	1,262
Stock options expense	55	37	283	111
Gain on sale of land and building (note 4)	-	-	-	(5,698)
Pension and other post-retirement benefits expense	1,193	1,137	3,565	3,429
Contributions made to pension and other post-retirement benefits	(1,660)	(473)	(4,284)	(1,449)
	102,112	92,487	350,231	299,113
Changes in non-cash working capital items:				
Trade and other receivables	(35,769)	73,413	(47,335)	30,311
Inventories	(26,603)	(48,863)	(85,841)	(85,615)
Prepaid expenses and deposits	(1,693)	622	(5,385)	(3,243)
Trade, other payables and provisions	54,460	(42,659)	108,041	54,846
	92,507	75,000	319,711	295,412
Interest paid (excluding capitalized interest)	(8,065)	(4,797)	(22,309)	(14,761)
Income taxes paid	(16,675)	(10,597)	(79,253)	(43,254)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 67,767	$ 59,606	$ 218,149	$ 237,397
FINANCING ACTIVITIES:				
Repurchase of common shares	(8,960)	-	(8,960)	-
Increase in long-term debt (net of addition to deferred financing fees)	33,144	-	89,719	-
Repayment of long-term debt	(5,340)	(4,608)	(52,343)	(39,198)
Dividends paid	(3,909)	(2,606)	(9,114)	(7,788)
Exercise of employee stock options	750	-	1,835	202
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ 15,685	$ (7,214)	$ 21,137	$ (46,784)
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment*	(69,506)	(49,004)	(220,808)	(192,556)
Capitalized development costs	(3,610)	(3,289)	(10,094)	(10,580)
Investment in NanoXplore Inc. (note 6)	-	(2,475)	(680)	(2,475)
Proceeds on disposal of property, plant and equipment	155	705	1,128	1,330
Upfront recovery of development costs incurred	169	-	2,445	1,170
Proceeds on disposal of land and building (note 4)	-	-	-	9,872
NET CASH USED IN INVESTING ACTIVITIES	$ (72,792)	$ (54,063)	$ (228,009)	$ (193,239)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,224)	(3,007)	1,224	(4,074)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,436	(4,678)	12,501	(6,700)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	75,258	57,143	71,193	59,165
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 83,694	$ 52,465	$ 83,694	$ 52,465

*As at September 30, 2018, $25,571 (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 second 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 is in the process of collecting and cataloguing all existing leases and is analyzing the impact of the new standard on existing leases. The adoption of IFRS 16 will result in operating lease liabilities and corresponding right-of-use assets being recognized on the consolidated statement of financial position. The adoption of IFRS 16 will also result in a decrease in operating rent expense and, increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The full extent of the impact has not yet been finalized.

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

2. TRADE AND OTHER RECEIVABLES

	September 30, 2018	December 31, 2017
Trade receivables	$ 595,721	$ 538,830
Other receivables	17,386	17,219
Foreign exchange forward contracts not accounted for as hedges (note 15(d))	700	-
	$ 613,807	$ 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

	September 30, 2018	December 31, 2017
Raw materials	$ 168,322	$ 154,293
Work in progress	39,373	38,618
Finished goods	35,637	34,962
Tooling work in progress and other inventory	223,621	149,099
	$ 466,953	$ 376,972

4. PROPERTY, PLANT AND EQUIPMENT

	September 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	$ 123,236	$ (20,457)	$ 102,779	$ 118,154	$ (17,157)	$ 100,997
Leasehold improvements	67,192	(38,850)	28,342	62,100	(35,897)	26,203
Manufacturing equipment	1,905,195	(1,007,920)	897,275	1,758,415	(909,065)	849,350
Tooling and fixtures	39,309	(32,839)	6,470	38,509	(31,034)	7,475
Other assets	58,585	(28,564)	30,021	53,197	(24,793)	28,404
Construction in progress and spare parts	297,045	-	297,045	270,195	-	270,195
	$ 2,490,562	$ (1,128,630)	$ 1,361,932	$ 2,300,570	$ (1,017,946)	$ 1,282,624

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

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

	Land and buildings	Leasehold improvements	Manufacturin equipment	Tooling and fixtures	Other assets	Construction 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	182,288	182,502
Disposals	-	(5)	(815)	-	(7)	(670)	(1,497)
Depreciation	(3,007)	(3,033)	(108,289)	(1,319)	(4,697)	-	(120,345)
Transfers from construction in progress and spare parts	3,053	4,919	144,605	185	6,002	(158,764)	-
Foreign currency translation adjustment	1,728	118	12,424	129	253	3,996	18,648
Net as of September 30, 2018	$ 102,779	$ 28,342	$ 897,275	$ 6,470	$ 30,021	$ 297,045	$ 1,361,932

The Company has entered into certain asset-backed financing arrangements that were structured as sales-leaseback transactions. At September 30, 2018, the carrying value of property, plant and equipment under such arrangements was $18,251 (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

	September 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	$ 61,597	$ (57,232)	$ 4,365	$ 61,432	$ (55,512)	$ 5,920
Development costs	148,983	(86,193)	62,790	143,325	(80,831)	62,494
	$ 210,580	$ (143,425)	$ 67,155	$ 204,757	$ (136,343)	$ 68,414

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

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	-	10,094	10,094
Amortization	(1,605)	(8,554)	(10,159)
Upfront recovery of development costs incurred	-	(2,445)	(2,445)
Foreign currency translation adjustment	50	1,201	1,251
Net as of September 30, 2018	$ 4,365	$ 62,790	$ 67,155

6. OTHER ASSETS

	September 30, 2018	December 31, 2017
Investment in common shares of NanoXplore Inc.	$ 9,459	$ 11,275
Warrants in NanoXplore Inc.	2,657	3,990
	$ 12,116	$ 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.

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 September 30, 2018, the warrants had a fair value of $2,657. Based on the fair value of the warrants as at September 30, 2018, an unrealized loss of $901 was recognized for the three months ended September 30, 2018, and an unrealized loss of $1,439 was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 – unrealized gain of $1,375), 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 nine months ended September 30, 2018:

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

	2018 Acquisition	September 30, 2018
Expected volatility	66.87%	69.08%
Risk free interest rate	1.88%	2.20%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically quoted prices, with the change in fair value recorded in other comprehensive income. As at September 30, 2018, the common shares had a fair value of $9,459. Based on the fair value of the common shares as at September 30, 2018, an unrealized loss of $1,774 ($1,552 net of tax) was recognized for the three months ended September 30, 2018, and an unrealized loss of $2,390 ($2,091 net of tax) was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - unrealized gain of $3,813, $3,336 net of tax).

7. TRADE AND OTHER PAYABLES

	September 30, 2018	December 31, 2017
Trade accounts payable and accrued liabilities	$ 825,779	$ 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))	99	-
	$ 825,878	$ 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	-	1,797	1,797
Amounts used during the period	(355)	(1,338)	(1,693)
Foreign currency translation adjustment	9	(522)	(513)
Net as of September 30, 2018	$ 770	$ 3,869	$ 4,639

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

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.

	September 30, 2018	December 31, 2017
Banking facility	$ 614,298	$ 551,656
Equipment loans	86,282	102,361
	700,580	654,017
Current portion	(16,202)	(24,795)
	$ 684,378	$ 629,222

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

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

	Currency	Nominal interest rate	Year of maturity	September 30, 2018 Carrying amount	December 31, 2017 Carrying amount
Banking facility	USD	LIBOR + 1.45%	2022	$ 369,598	$ 321,152
	CAD	BA + 1.45%	2022	244,700	230,504
Equipment loans	CAD	3.80%	2022	33,223	38,785
	EUR	1.05%	2024	32,303	-
	EUR	2.54%	2025	15,501	15,561
	USD	4.25%	2018	1,652	8,917
	EUR	1.36%	2021	1,486	2,100
	EUR	3.35%	2019	1,325	2,504
	USD	3.80%	2022	362	413
	EUR	0.26%	2025	349	375
	BRL	5.00%	2020	81	135
	EUR	3.06%	2024	-	15,210
	EUR	4.93%	2023	-	15,131
	EUR	4.34%	2025	-	3,230
				$ 700,580	$ 654,017

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

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

As at September 30, 2018, the Company has drawn US$286,000 (December 31, 2017 - US$256,000) on the U.S. revolving credit line and $248,000 (December 31, 2017 - $233,000) on the Canadian revolving credit line. At September 30, 2018, the weighted average effective rate of the banking facility credit lines was 3.6% (December 31, 2017 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at September 30, 2018.

Deferred financing fees of $3,369 (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 September 30, 2018 are as follows:

Within one year	$ 16,271
One to two years	11,627
Two to three years	11,828
Three to four years	632,589
Thereafter	31,634
	$ 703,949
Less: Deferred financing fees	(3,369)
	700,580

(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		54,360
Equipment loan proceeds		36,886
Repayments		(52,343)
Additions to deferred financing fees		(1,527)
Amortization of deferred financing fees		985
Foreign currency translation adjustment		8,202
Net as of September 30, 2018	$	700,580

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, September 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	223,750		2,422
Repurchase of common shares under normal course issuer bid	(643,720)		(5,298)
Balance, September 30, 2018	86,325,864	$	710,549

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

Repurchase of capital stock:

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

During the third quarter, the Company purchased for cancellation an aggregate of 643,720 common shares for an aggregate purchase price of $8,960, resulting in a reduction to stated capital of $5,298 and a decrease to retained earnings of $3,662. The shares were purchased for cancellation directly under the NCIB.

Stock options

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

	Nine months ended September 30, 2018			Nine months ended September 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	820,000		13.54	-		-
Exercised during the period	(223,750)		8.20	(27,500)		7.33
Cancelled during the period	-		-	(905,000)		14.91
Balance, end of period	2,440,700	$	11.45	2,078,117	$	9.90
Options exercisable, end of period	1,645,700	$	10.47	1,953,117	$	9.77

(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 September 30, 2018:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$6.00 - 8.99	543,701	2008 - 2012	2018 - 2022
$10.00 - 15.99	1,796,999	2008 - 2018	2018 - 2028
$16.00 - 17.99	100,000	2018	2028
Total share purchase options	2,440,700		

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.

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expected volatility	36.67%	-
Risk free interest rate	2.19%	-
Expected life (years)	4.88	-
Dividend yield	1.36%	-
Weighted average fair value of options granted	$ 3.82	$ -

For the three and nine months ended September 30, 2018, the Company expensed $55 (2017 - $37) and $283 (2017 - $111), 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 September 30, 2018 and 2017:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Units outstanding, beginning of period	123,313	67,837
Units granted during the period	19,031	30,894
Units settled during the period	-	-
Units for dividends earned during the period (issued twice a year)	588	420
Units outstanding, end of period	142,932	99,151

The DSUs granted during the nine months ended September 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 September 30, 2018, the fair value of all outstanding DSUs amounted to $1,966 (September 30, 2017 - $1,107 and December 31, 2017 - $1,939). For the three and nine months ended September 30, 2018, DSU compensation expense/benefit reflected in the interim consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $207 (2017 – expense of $41) and an expense of $28 (2017 – expense of $539), 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 September 30, 2018 and 2017:

	RSUs	PSUs	Total
Units outstanding, December 31, 2016	-	-	-
Units granted during the period	57,760	57,760	115,520
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, September 30, 2017	57,760	57,760	115,520
Units granted during the period	19,544	19,544	39,088
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	188,986	188,986	377,972
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, September 30, 2018	266,290	266,290	532,580

The RSUs and PSUs granted during the nine months ended September 30, 2018 and 2017 had a weighted average fair value per unit of $15.83 and $11.70, respectively, on the date of grant. For the three and nine months ended September 30, 2018, RSU and PSU compensation expense reflected in the interim consolidated statement of operations, including changes in fair value during the period, amounted to $1,216 (2017 - $432) and $2,361 (2017 - $723) respectively, recorded in Selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at September 30, 2018 was $3,796 (September 30, 2017 - $638 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 nine months ended September 30, 2018 and 2017 are shown in the table below:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expected life (years)	2.47	2.21
Risk free interest rate	2.02%	1.52%

11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Current income tax expense	$ (33,204)	$ (16,019)	$ (93,474)	$ (58,448)
Deferred income tax recovery	20,968	5,671	45,220	20,585
Total income tax expense	$ (12,236)	$ (10,348)	$ (48,254)	$ (37,863)

(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 September 30, 2018			Three months ended September 30, 2017		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,684,746	$	0.42	86,512,167	$	0.42
Effect of dilutive securities:						
Stock options	411,202		-	281,866		-
Diluted	87,095,948	$	0.42	86,794,033	$	0.42

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	86,790,121	$	1.71	86,505,494	$	1.47
Effect of dilutive securities:						
Stock options	569,413		(0.01)	233,199		-
Diluted	87,359,534	$	1.70	86,738,693	$	1.47

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 September 30, 2018, 100,000 options (2017 - 842,000) and for the nine months ended September 30, 2018, 100,000 options (2017 - 1,555,749) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

13. OTHER FINANCE INCOME (EXPENSE)

		Three months ended September 30, 2018		Three months ended September 30, 2017		Nine months ended September 30, 2018		Nine months ended September 30, 2017
Net unrealized foreign exchange gain (loss)	$	(2,100)	$	246	$	(719)	$	861
Unrealized gain (loss) on derivative instruments (note 6)		(901)		1,375		(1,439)		1,375
Other income, net		106		94		259		222
Other finance income (expense)	$	(2,895)	$	1,715	$	(1,899)	$	2,458

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.

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

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

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

	Three months ended September 30, 2018			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income**
North America				
Canada	$ 142,063	$ 44,554	$ 186,617	
USA	265,409	28,924	294,333	
Mexico	250,660	13,808	264,468	
Eliminations	(43,475)	(53,294)	(96,769)	
	$ 614,657	$ 33,992	$ 648,649	$ 52,237
Europe				
Germany	115,171	5,689	120,860	
Spain	32,198	5,964	38,162	
Slovakia	11,688	1,261	12,949	
Eliminations	-	(69)	(69)	
	159,057	12,845	171,902	6,164
Rest of the World	31,210	2,332	33,542	48
Eliminations	(1,831)	(1,126)	(2,957)	
	$ 803,093	$ 48,043	$ 851,136	$ 58,449

	Three months ended September 30, 2017			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income**
North America				
Canada	$ 139,651	$ 9,190	$ 148,841	
USA	300,585	4,497	305,082	
Mexico	210,923	22,084	233,007	
Eliminations	(32,264)	(7,771)	(40,035)	
	$ 618,895	$ 28,000	$ 646,895	$ 42,459
Europe				
Germany	102,109	5,000	107,109	
Spain	38,709	4,804	43,513	
Slovakia	12,882	1,801	14,683	
Eliminations	(6)	(159)	(165)	
	153,694	11,446	165,140	9,034
Rest of the World	29,951	368	30,319	(1,387)
Eliminations	(2,570)	(1,249)	(3,819)	
	$ 799,970	$ 38,565	$ 838,535	$ 50,106

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

	Nine months ended September 30, 2018			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 467,419	$ 69,965	$ 537,384	
USA	882,751	77,631	960,382	
Mexico	735,495	45,648	781,143	
Eliminations	(126,479)	(60,779)	(187,258)	
	$ 1,959,186	$ 132,465	$ 2,091,651	$ 180,864
Europe				
Germany	354,169	24,352	378,521	
Spain	110,572	13,658	124,230	
Slovakia	40,902	3,850	44,752	
Eliminations	-	(1,175)	(1,175)	
	505,643	40,685	546,328	36,746
Rest of the World	95,388	12,363	107,751	955
Eliminations	(7,485)	(1,499)	(8,984)	
	$ 2,552,732	$ 184,014	$ 2,736,746	$ 218,565

	Nine months ended September 30, 2017			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 561,025	$ 51,956	$ 612,981	
USA	1,046,273	17,281	1,063,554	
Mexico	638,304	60,075	698,379	
Eliminations	(118,658)	(17,323)	(135,981)	
	$ 2,126,944	$ 111,989	$ 2,238,933	$ 155,970
Europe				
Germany	307,275	19,389	326,664	
Spain	113,018	9,627	122,645	
Slovakia	41,499	2,815	44,314	
Eliminations	(178)	(365)	(543)	
	461,614	31,466	493,080	30,892
Rest of the World	88,765	1,398	90,163	(7,765)
Eliminations	(7,561)	(2,758)	(10,319)	
	$ 2,669,762	$ 142,095	$ 2,811,857	$ 179,097

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.

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

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

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 83,694	$ 83,694	$ -	$ -
Other assets (note 6)	$ 12,116	$ 9,459	$ 2,657	$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	$ 700	$ -	$ 700	$ -
Foreign exchange forward contracts accounted for as hedges (note 7)	$ (99)	$ -	$ (99)	$ -

	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)	$ -

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:

September 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	$ -	$ -	$ 613,107	$ -	$ 613,107	$ 613,107
Other assets (note 6)	2,657	9,459	-	-	12,116	12,116
Foreign exchange forward contracts not accounted for as hedges	700	-	-	-	700	700
	3,357	9,459	613,107	-	625,923	625,923
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(825,779)	(825,779)	(825,779)
Long-term debt	-	-	-	(700,580)	(700,580)	(700,580)
Foreign exchange forward contracts accounted for as hedges	-	(99)	-	-	(99)	(99)
	-	(99)	-	(1,526,359)	(1,526,458)	(1,526,458)
Net financial assets (liabilities)	$ 3,357	$ 9,360	$ 613,107	$ (1,526,359)	$ (900,535)	$ (900,535)

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.

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

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.

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 29.3%, 27.3%, and 15.8% of its production sales for the nine months ended September 30, 2018 (2017 - 33.2%, 27.3% and 14.9%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at September 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:

	September 30, 2018	December 31, 2017
0-60 days	$ 559,843	$ 501,336
61-90 days	15,573	19,853
Greater than 90 days	20,305	17,641
	$ 595,721	$ 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 September 30, 2018, the Company had cash of $83,694 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%.

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

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

	Carrying amount	
	September 30, 2018	**December 31, 2017**
Variable rate instruments	$ 614,298	$ 551,656
Fixed rate instruments	86,282	102,361
	$ 700,580	$ 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 $1,515 (2017 - $1,497) on the Company's interim consolidated financial results for the three months ended September 30, 2018 and $4,422 (2017 - $4,582) for the nine months ended September 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.

At September 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
Buy Canadian Dollars	$ 40,000	1.3003	1
Buy Mexican Peso	$ 25,331	18.9494	1

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax gain of $700 and was recorded in trade and other receivables (December 31, 2017 - loss of $146 and was recorded in trade and other payables).

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

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$ 64,000	1.2780	51

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax loss of $99 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:

September 30, 2018	USD	EURO	PESO	BRL	CNY
Trade and other receivables	$ 339,232	€ 73,523	$ 34,236	R$ 34,874	¥ 77,482
Trade and other payables	(395,599)	(94,854)	(238,867)	(45,541)	(109,850)
Long-term debt	(287,611)	(33,988)	-	(253)	-
	$ (343,978)	€ (55,319)	$ (204,631)	R$ (10,920)	¥ (32,368)

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

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 nine months ended September 30, 2018 and 2017:

	Average rate		Average rate		Closing rate	
	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017	September 30, 2018	December 31, 2017
USD	1.3100	1.2849	1.2856	1.3186	1.2923	1.2571
EURO	1.5236	1.4823	1.5367	1.4494	1.4995	1.5089
PESO	0.0677	0.0718	0.0674	0.0691	0.0690	0.0639
BRL	0.3403	0.3997	0.3670	0.4127	0.3187	0.3795
CNY	0.1961	0.1906	0.1982	0.1927	0.1881	0.1924

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at September 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 nine months ended September 30, 2018 and 2017 by the amounts shown below, assuming all other variables remain constant:

		Three months ended September 30, 2018		Three months ended September 30, 2017		Nine months ended September 30, 2018		Nine months ended September 30, 2017
USD	$	(3,536)	$	(2,733)	$	(11,233)	$	(9,803)
EURO		(655)		(788)		(3,240)		(2,616)
BRL		(10)		86		136		783
CNY		32		90		(73)		257
	$	(4,169)	$	(3,345)	$	(14,410)	$	(11,379)

A weakening of the Canadian dollar against the above currencies at September 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 $67,100 (BRL 210,600) including interest and penalties to September 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 $43,849 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 consolidated balance sheet. At September 30, 2018, the amount of the program financing was $65,755 (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.

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