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*

<u>SALES</u>

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.