MARTINREA INTERNATIONAL INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

Martinrea International Inc.

Table of Contents

		Page
Management's responsibility for financial reporting		1
Independent auditors' report		2
Consolidated Balance Sheets		3
Consolidated Statements of Operations		4
Consolidated Statements of Comprehensive Income		5
Consolidated Statements of Changes in Equity		6
Consolidated Statements of Cash Flows		7
Notes to the Consolidated Financial Statements		
1.	Basis of preparation	8
2.	Significant accounting policies	9
3.	Trade and other receivables	17
4.	Inventories	17
5.	Property, plant and equipment	17
6.	Intangible assets	18
7.	Other assets	19
8.	Impairment of assets	20
9.	Trade and other payables	20
10.	Provisions	20
11.	Long-term debt	21
12.	Pensions and other post-retirement benefits	22
13.	Income taxes	25
14.	Capital stock	27
15.	Earnings per share	29
16.	Research and development costs	29
17.	Personnel expenses	29
18.	Finance expense and other finance income	29
19.	Operating segments	30
20.	Financial instruments	30
21.	Commitments and contingencies	34
22.	Guarantees	35
23.	Transactions with key management personnel	36
24.	List of consolidated entities	36

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management's judgment. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2017 is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, for overseeing management's performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, multiple times a year to review among other things accounting policies, observations, if any, relating to internal controls over the financial reporting process that may be identified during the audit process, as influenced by the nature, timing and extent of audit procedures performed, annual financial statements, the results of the external audit examination and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2017. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) *"Pat D'Eramo"*	(Signed) *"Fred Di Tosto"*
Pat D'Eramo	Fred Di Tosto
President & Chief Executive Officer	Chief Financial Officer

KPMG LLP
Chartered Public Accountants
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3

Telephone 905-265-5900
Fax 905-265-6390
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Martinrea International Inc.

We have audited the accompanying consolidated financial statements of Martinrea International Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Martinrea International Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 1, 2018
Toronto, Canada

Martinrea International Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note		December 31, 2017		December 31, 2016
ASSETS					
Cash and cash equivalents		$	71,193	$	59,165
Trade and other receivables	3		556,049		568,445
Inventories	4		376,972		306,130
Prepaid expenses and deposits			15,504		14,758
Income taxes recoverable			12,979		9,786
TOTAL CURRENT ASSETS			1,032,697		958,284
Property, plant and equipment	5		1,282,624		1,257,247
Deferred income tax assets	13		142,173		179,702
Intangible assets	6		68,414		73,261
Other assets	7		15,265		-
TOTAL NON-CURRENT ASSETS			1,508,476		1,510,210
TOTAL ASSETS		$	2,541,173	$	2,468,494
LIABILITIES					
Trade and other payables	9	$	741,549	$	707,007
Provisions	10		5,048		6,689
Income taxes payable			34,429		18,622
Current portion of long-term debt	11		24,795		27,982
TOTAL CURRENT LIABILITIES			805,821		760,300
Long-term debt	11		629,222		693,421
Pension and other post-retirement benefits	12		65,258		66,863
Deferred income tax liabilities	13		82,373		118,234
TOTAL NON-CURRENT LIABILITIES			776,853		878,518
TOTAL LIABILITIES			1,582,674		1,638,818
EQUITY					
Capital stock	14		713,425		710,510
Contributed surplus			41,981		42,660
Accumulated other comprehensive income			94,268		117,048
Retained earnings (accumulated deficit)			108,825		(40,020)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			958,499		830,198
Non-controlling interest			-		(522)
TOTAL EQUITY			958,499		829,676
TOTAL LIABILITIES AND EQUITY		$	2,541,173	$	2,468,494

Commitments and Contingencies (note 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

Martinrea International Inc.

Consolidated Statements of Operations

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

	Note		Year ended December 31, 2017		Year ended December 31, 2016
SALES		$	3,690,499	$	3,968,407
Cost of sales (excluding depreciation of property, plant and equipment)			(3,065,880)		(3,408,740)
Depreciation of property, plant and equipment (production)			(140,018)		(127,617)
Total cost of sales			(3,205,898)		(3,536,357)
GROSS MARGIN			484,601		432,050
Research and development costs	16		(26,597)		(24,853)
Selling, general and administrative			(211,533)		(198,109)
Depreciation of property, plant and equipment (non-production)			(9,652)		(8,727)
Amortization of customer contracts and relationships			(2,162)		(2,307)
Impairment of assets	8		(7,488)		(34,579)
Gain on sale of land and building	5		19,072		-
Gain (loss) on disposal of property, plant and equipment			383		(347)
Restructuring costs	10		-		(3,684)
OPERATING INCOME			246,624		159,444
Finance expense	18		(22,527)		(24,196)
Other finance income (expense)	18		5,139		(1,909)
INCOME BEFORE INCOME TAXES			229,236		133,339
Income tax expense	13		(69,970)		(41,378)
NET INCOME FOR THE PERIOD		$	159,266	$	91,961
Non-controlling interest			277		419
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		$	159,543	$	92,380
Basic earnings per share	15	$	1.84	$	1.07
Diluted earnings per share	15	$	1.84	$	1.07

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

	Year ended December 31, 2017	Year ended December 31, 2016
NET INCOME FOR THE PERIOD	$ 159,266	$ 91,961
Other comprehensive income (loss), net of tax:		
Items that may be reclassified to net income		
Foreign currency translation differences for foreign operations	(30,737)	(30,394)
Change in fair value of available for sale investments	7,957	-
Items that will not be reclassified to net income		
Remeasurement of defined benefit plans	1,539	1,123
Other comprehensive income (loss), net of tax	(21,241)	(29,271)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 138,025	$ 62,690
Attributable to:		
Equity holders of the Company	138,302	63,109
Non-controlling interest	(277)	(419)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 138,025	$ 62,690

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	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, 2015	$ 709,396	$ 42,648	$ 147,442	$ (123,157)	$ 776,329	$ (103)	$ 776,226
Net income for the period	-	-	-	92,380	92,380	(419)	91,961
Compensation expense related to stock options	-	333	-	-	333	-	333
Dividends ($0.12 per share)	-	-	-	(10,366)	(10,366)	-	(10,366)
Exercise of employee stock options	1,114	(321)	-	-	793	-	793
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,123	1,123	-	1,123
Foreign currency translation differences	-	-	(30,394)	-	(30,394)	-	(30,394)
BALANCE AT DECEMBER 31, 2016	710,510	42,660	117,048	(40,020)	830,198	(522)	829,676
Net income for the period	-	-	-	159,543	159,543	(277)	159,266
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	123	-	-	123	-	123
Dividends ($0.12 per share)	-	-	-	(10,388)	(10,388)	-	(10,388)
Exercise of employee stock options	2,915	(802)	-	-	2,113	-	2,113
Other comprehensive income (loss), net of tax							
Remeasurement of defined benefit plans	-	-	-	1,539	1,539	-	1,539
Foreign currency translation differences	-	-	(30,737)	-	(30,737)	-	(30,737)
Change in fair value of available for sale investments	-	-	7,957	-	7,957	-	7,957
BALANCE AT DECEMBER 31, 2017	$ 713,425	$ 41,981	$ 94,268	$ 108,825	$ 958,499	$ -	$ 958,499

See accompanying notes to the consolidated financial statements.

Martinrea International Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

		Year ended December 31, 2017		Year ended December 31, 2016
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net Income for the period	$	159,266	$	91,961
Adjustments for:				
Depreciation of property, plant and equipment		149,670		136,344
Amortization of customer contracts and relationships		2,162		2,307
Amortization of development costs		13,237		13,652
Impairment of assets (note 8)		7,488		34,579
Unrealized losses on foreign exchange forward contracts		146		208
Unrealized gain on derivative instruments (note 7)		(3,697)		-
Finance expense		22,527		24,196
Income tax expense		69,970		41,378
Gain on sale of land and building (note 5)		(19,072)		-
Loss (gain) on disposal of property, plant and equipment		(383)		347
Deferred and restricted share units expense		2,751		568
Stock options expense		123		333
Pension and other post-retirement benefits expense		4,487		4,274
Contributions made to pension and other post-retirement benefits		(2,468)		(2,116)
		406,207		348,031
Changes in non-cash working capital items:				
Trade and other receivables		(77)		(4,537)
Inventories		(80,483)		29,923
Prepaid expenses and deposits		(1,344)		(1,038)
Trade, other payables and provisions		55,028		(40,334)
		379,331		332,045
Interest paid (excluding capitalized interest)		(20,304)		(22,361)
Income taxes paid		(56,166)		(49,967)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	302,861	$	259,717
FINANCING ACTIVITIES:				
Increase in long-term debt		40,000		90,784
Repayment of long-term debt		(88,648)		(69,499)
Dividends paid		(10,380)		(10,365)
Exercise of employee stock options		2,113		793
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$	(56,915)	$	11,713
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment*		(259,600)		(226,910)
Capitalized development costs		(14,211)		(12,624)
Investment in NanoXplore Inc. (note 7)		(2,475)		-
Proceeds on disposal of land and building (note 5)		40,910		-
Proceeds on disposal of property, plant and equipment		3,586		438
Upfront recovery of development costs incurred		1,170		-
NET CASH USED IN INVESTING ACTIVITIES	$	(230,620)	$	(239,096)
Effect of foreign exchange rate changes on cash and cash equivalents		(3,298)		(2,068)
INCREASE IN CASH AND CASH EQUIVALENTS		12,028		30,266
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		59,165		28,899
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	71,193	$	59,165

*As at December 31, 2017, $63,877 (December 31, 2016, $71,557) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended December 31, 2017 were approved by the Board of Directors on March 1, 2018.

(b) Presentation currency

These 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.

(c) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Estimates of the economic life of property, plant and equipment and intangible assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately priced tooling contracts: Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total

contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

- Estimates used in determining the fair value of stock option and performance share unit grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options/units granted, where relevant.
- Estimates used in determining the fair value of derivative instruments associated with investments in equity securities. These estimates include assumptions about the volatility of the investee's stock and expected life of the instrument.

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgements made are disclosed in individual notes throughout the financial statements where relevant):

- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.
- Accounting for development costs – judgement is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit.
- The determination of the Company's cash generating units for impairment testing.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

(i) Foreign currency transactions

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

(ii) Translation of financial statements of foreign operations

The assets and liabilities of subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate prevailing on the date of transaction.

Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial assets at fair value through profit or loss:
Financial assets are designated at fair value through profit or loss if the Company manages such asset and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents.

Cash and cash equivalents comprise cash balances and highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

Available-for-sale financial assets:
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and included in Other Assets. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value 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 profit or loss.

(ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: long-term debt and trade and other payables.

The Company initially recognizes debt and subordinated liabilities at fair value on the date that they are originated plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Trade and other payables are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument and subsequently at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments

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 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 profit or loss.

(iv) Hedge Accounting

The Company uses some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments made in certain US operations. 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 that is being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed.

At inception and at every quarter end thereafter, the Company formally assesses the effectiveness of these net investment hedges. 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 earnings.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Certain tooling is produced or purchased specifically for the purpose of manufacturing parts for customer orders, which are either a) not sold to the customer, or b) paid for by the customer on delivery of each part, without the customer guaranteeing full financing of the costs incurred. In accordance with IAS 16, this tooling is recognized as property, plant and equipment. It is depreciated to match the lesser of estimated useful life and life of the program.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

(iii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is recorded on the following bases and at the following rates:

	Basis	Rate
Buildings	Declining balance	4%
Leasehold improvements	Straight line	Lesser of estimated useful life and lease term
Manufacturing equipment	Declining balance and straight line	7% to 20%
Tooling and fixtures	Straight line	Lesser of estimated useful life and life of program
Other	Declining balance and straight line	20% to 30%

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

(e) Intangible assets

The Company's intangible assets are composed of customer contracts acquired in previous acquisitions and development costs.

(i) Customer contracts and relationships:

Customer contracts and relationships have a finite useful life and are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a basis consistent with the contract value initially established upon acquisition.

(ii) Research and development:

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if:

- the development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- the future economic benefits are probable, and
- the Company intends to and has sufficient resources to complete the development and to use or sell the asset.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the statements of operations.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of the net realizable value.

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Pensions and other post-retirement benefits

The Company's liability for pensions and other post-retirement benefits is based on valuations performed by independent actuaries using the projected unit credit method. These valuations incorporate both financial assumptions (discount rate, and changes in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The liability for pensions and other post-retirement benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in accumulated deficit through other comprehensive income.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time is recognized through profit and loss in other finance income.

(j) Revenue recognition

Sales primarily include sales of finished goods and tooling. Sales of finished goods and tooling are recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer, retains neither continuing managerial involvement nor effective control over the goods sold, and meets other revenue recognition criteria in accordance with IFRS. This generally corresponds to when the goods are shipped or, in the case of the sale of tooling, when the tool has been inspected and accepted by the customer.

(k) Finance income and finance expense

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense is comprised of interest expense on long-term debt, amortization of deferred financing costs, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Guarantees

The Company accounts for guarantees in accordance with IAS 39, *Financial Instruments, Recognition and Measurement* ("IAS 39"). A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Under IAS 39, guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are remeasured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and (ii) the amount initially recognized less cumulative amortization.

(n) Share-based payments

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

(o) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(q) Deferred Share Unit Plan

On May 3, 2016, a Deferred Share Unit Plan (the "DSU Plan") was established as a means of compensating non-executive directors and designated employees of the Company and of promoting share ownership and alignment with the shareholders' interests. Non-executive directors of Martinrea are automatically required to participate in the DSU Plan while employees may be designated from time to time, at the sole discretion of the Board of Directors.

Vesting conditions may be attached to the DSUs at the Board of Directors' discretion. To date, DSUs granted to directors vest immediately. DSU Plan participants receive additional DSUs equivalent to cash dividends paid on common shares. DSUs are paid out in cash upon termination of service, based on their fair market value, which is defined as the average closing share price of the Company's common shares for the 20 days preceding the termination date.

DSUs are considered cash-settled awards. The fair value of DSUs, at the date of grant to the DSU Plan participants, is recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the DSUs are fair valued at the end of every reporting period and at the settlement date. Any change in the fair value of the liability is recognized as compensation expense in income.

(r) Performance and Restricted Share Unit Plan

On November 3, 2016, as amended on April 28, 2017, a Performance and Restricted Share Unit Plan (the "PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interests. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan), at the Company's option, for either common shares or cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

The fair value of PSUs and RSUs at the date of grant to the PRSU Plan participants, determined using the Monte Carlo Simulation model in the case of PSUs, are recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the RSUs and PSUs are fair valued at the end of every reporting period and at the settlement date. Any change in fair value of the liability is recognized as compensation expense in income.

(s) Recently adopted accounting standards

Amendments to IAS 7, Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company adopted the amendments to IAS 7 effective January 1, 2017. The adoption of this amended standard resulted in some additional disclosure in note 11 (Long-term debt) of the consolidated financial statements for the year ended December 31, 2017.

(t) Recently issued accounting standards

The IASB issued the following new standards and amendments to existing standards:

IFRS 15, Revenue from Contracts with Customer

In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company has completed its assessment of the impact the adoption of IFRS 15 is expected to have on the consolidated financial statements. As part of the assessment, which included consultation with industry peers, the Company analyzed the standard's impact on customer contracts, compared its historical accounting policies and practices to the requirements of the new standard, and identified potential differences from the application of the new standard's requirements. Based on the work performed, the Company does not expect that the adoption will have a material impact on its revenues, results of operations or financial position. As required by the standard, the Company expects to make additional disclosure related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has assessed the impact of IFRS 9 on the consolidated financial statements and does not expect it to have a material impact to 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 elect this policy choice. Revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 Financial Instruments: Disclosures will be addressed upon adoption on January 1, 2018.

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 is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

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

Amendments to IFRS 2, Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company has assessed the impact of the amendments to IFRS 2 on the consolidated financial statements and does not expect it to have a material impact.

3. TRADE AND OTHER RECEIVABLES

		December 31, 2017		December 31, 2016
Trade receivables	$	538,830	$	555,074
Other receivables		17,219		13,371
	$	556,049	$	568,445

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 20.

4. INVENTORIES

		December 31, 2017		December 31, 2016
Raw materials	$	154,293	$	146,802
Work in progress		38,618		38,323
Finished goods		34,962		39,088
Tooling work in progress and other inventory		149,099		81,917
	$	376,972	$	306,130

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2017						December 31, 2016					
		Cost		Accumulated amortization and impairment losses		Net book value		Cost		Accumulated amortization and impairment losses		Net book value
Land and buildings	$	118,154	$	(17,157)	$	100,997	$	161,438	$	(41,389)	$	120,049
Leasehold improvements		62,100		(35,897)		26,203		58,303		(33,316)		24,987
Manufacturing equipment		1,758,415		(909,065)		849,350		1,684,395		(876,359)		808,036
Tooling and fixtures		38,509		(31,034)		7,475		42,806		(34,387)		8,419
Other assets		53,197		(24,793)		28,404		40,795		(23,038)		17,757
Construction in progress and spare parts		270,195		-		270,195		277,999		-		277,999
	$	2,300,570	$	(1,017,946)	$	1,282,624	$	2,265,736	$	(1,008,489)	$	1,257,247

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

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2015	$ 113,323	$ 24,604	$ 780,750	$ 5,743	$ 17,936	$ 259,806	$ 1,202,162
Additions	-	221	7,083	18	304	241,828	249,454
Disposals	(4)	-	(512)	-	(62)	(207)	(785)
Depreciation	(4,038)	(4,510)	(121,976)	(1,604)	(4,216)	-	(136,344)
Impairment (note 8)	-	(723)	(21,021)	-	(26)	-	(21,770)
Transfers from construction in progress and spare parts	13,005	6,131	188,457	4,310	4,417	(216,320)	-
Foreign currency translation adjustment	(2,237)	(736)	(24,745)	(48)	(596)	(7,108)	(35,470)
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 (note 8)	-	-	(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

The Company has entered into certain asset-backed financing arrangements that were structured as sales-leaseback transactions. At December 31, 2017, the carrying value of property, plant and equipment under such arrangements was $21,001 (December 31, 2016 – $25,632). The corresponding amounts owing are reflected within long-term debt (note 11).

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.

During the fourth quarter of 2017, the Company finalized and closed a sale-leaseback arrangement involving the land and building of two of its operating facilities in the Greater Toronto Area. The assets were sold for net proceeds of $31,038 (net of closing costs of $473) resulting in a pre-tax gain of $13,374. The corresponding leaseback of the assets is for a term of ten years at market rates.

6. INTANGIBLE ASSETS

	December 31, 2017			December 31, 2016		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 61,432	$ (55,512)	$ 5,920	$ 62,044	$ (53,872)	$ 8,172
Development costs	143,325	(80,831)	62,494	138,416	(73,327)	65,089
	$ 204,757	$ (136,343)	$ 68,414	$ 200,460	$ (127,199)	$ 73,261

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

Movement in intangible assets is summarized as follows:

		Customer contracts and relationships		Development costs		Total
Net as of December 31, 2015	$	10,773	$	72,817	$	83,590
Additions		-		12,624		12,624
Amortization		(2,307)		(13,652)		(15,959)
Impairment (note 8)		-		(4,179)		(4,179)
Foreign currency translation adjustment		(294)		(2,521)		(2,815)
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

7. OTHER ASSETS

		December 31, 2017		December 31, 2016
Investment in common shares of NanoXplore Inc.	$	11,275	$	-
Warrants in NanoXplore Inc.		3,990		-
	$	15,265	$	-

Investment in NanoXplore Inc.

In the third quarter of 2017, the Company acquired 5.5 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 $2,475 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 2.75 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 $2,475 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.

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 December 31, 2017, the warrants had a fair value of $3,990 resulting in an unrealized gain of $3,697 for the year ended December 31, 2017, which is recorded in Other finance income (expense) in the consolidated statement of operations. The table below summarizes the assumptions used in valuing the warrants using the Black-Scholes valuation model as at the acquisition date and December 31, 2017:

	Acquisition	December 31, 2017
Expected volatility	76.29%	76.68%
Risk free interest rate	1.31%	1.68%
Expected life (years)	2	2

The acquired common shares in NanoXplore have been classified as available-for-sale for reporting purposes. As such, the common shares are recorded at their fair value at the end of each reporting period based on publicly quoted prices, with the change in fair value recorded in other comprehensive income. As at December 31, 2017, the common shares had a fair value of $11,275 resulting in an unrealized gain of $9,093 ($7,957 net of tax) for the year ended December 31, 2017.

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

8. IMPAIRMENT OF ASSETS

		Year ended December 31, 2017		Year ended December 31, 2016
Property, plant and equipment	$	7,488	$	21,770
Intangible assets - Development costs		-		4,179
Inventories		-		8,630
Total impairment	$	7,488	$	34,579

During the fourth quarter of 2017, in conjunction with the Company's annual business planning cycle, the Company recorded an impairment charge on property, plant and equipment of $7,488. The impairment charge related to specific equipment at an operating facility in Canada included in the North America operating segment. The equipment is no longer in use and is not expected to be redeployed.

During the second quarter of 2016, the Company recorded impairment charges on property, plant, equipment, intangible assets and inventories totaling $34,579 (US$26,599) related to an operating facility in Detroit, Michigan included in the North American operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This led to a decision to close the facility. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

9. TRADE AND OTHER PAYABLES

		December 31, 2017		December 31, 2016
Trade accounts payable and accrued liabilities	$	741,403	$	706,799
Foreign exchange forward contracts (note 20(d))		146		208
	$	741,549	$	707,007

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

10. PROVISIONS

		Restructuring (a)		Claims and Litigations (b)		Total
Net as of December 31, 2015	$	14,026	$	1,572	$	15,598
Net additions		3,684		189		3,873
Amounts used during the period		(12,118)		(512)		(12,630)
Foreign currency translation adjustment		(344)		192		(152)
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

Based on estimated cash outflows, all provisions as at December 31, 2017 and December 31, 2016 are presented on the consolidated balance sheets as current liabilities.

(a) Restructuring

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated. The restructuring accrual as at December 31, 2015 relates to restructuring activities undertaken in Martinrea Honsel for employee related severance. Additional restructuring costs for Martinrea Honsel in Meschede, Germany of $1,810 (€1,238) were incurred during 2016. No further costs related to this restructuring are expected.

Other additions to the restructuring accrual during 2016 totaled $1,874 (US$1,441) and represent employee-related payouts resulting from the closure of the operating facility in Detroit, Michigan as described in note 8.

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

(b) Claims and litigation

In the normal course of business, the Company may be involved in disputes with its suppliers, former employees or other third parties. Where the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

The increase in claims and litigation provision for the year ended December 31, 2017 predominately related to certain employee-related matters in the Company's operating facility in Brazil.

11. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 20.

	December 31, 2017	December 31, 2016
Banking facility	$ 551,656	$ 631,879
Equipment loans	102,361	89,524
	654,017	721,403
Current portion	(24,795)	(27,982)
	$ 629,222	$ 693,421

Terms and conditions of outstanding loans, as at December 31, 2017, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2017 Carrying amount	December 31, 2016 Carrying amount
Banking facility	USD	LIBOR+1.75%	2020	$ 321,152	$ 362,529
	CAD	BA+1.75%	2020	230,504	269,350
Equipment loans	CAD	3.80%	2022	38,785	-
	EUR	2.54%	2025	15,561	14,648
	EUR	3.06%	2024	15,210	15,337
	EUR	4.93%	2023	15,131	14,370
	USD	4.25%	2018	8,917	23,532
	EUR	4.34%	2025	3,230	3,041
	EUR	3.35%	2019	2,504	3,797
	EUR	1.36%	2021	2,100	2,548
	USD	3.80%	2022	413	527
	EUR	0.26%	2025	375	353
	BRL	5.00%	2020	135	200
	USD	7.36%	2017	-	6,195
	USD	4.25%	2017	-	3,872
	EUR	3.37%	2017	-	904
	USD	3.99%	2017	-	200
				$ 654,017	$ 721,403

On April 29, 2016, the Company's banking facility was amended to extend its maturity date and increase the total available revolving credit lines under the facility. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

- available revolving credit lines of $350 million and US $400 million;
- available asset based financing capacity of $205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US $150 million;
- pricing terms at market rates; and
- a maturity date of April 2020.

There were no changes to pricing terms or financial covenants under the facility adverse to the Company.

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

As at December 31, 2017, the Company has drawn US$256,000 (December 31, 2016 - US$270,000) on the U.S. revolving credit line and $233,000 (December 31, 2016 - $273,000) on the Canadian revolving credit line. At December 31, 2017, the weighted average effective rate of the banking facility credit lines was 2.9% (December 31, 2016 - 2.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2017.

Deferred financing fees of $2,827 (December 31, 2016 - $4,194) have been netted against the carrying amount of the long-term debt.

During the quarter ended December 31, 2017, the Company finalized an equipment loan in the amount of $40,000 repayable in monthly installments over five years at a fixed interest rate of 3.80%. The agreement was executed on October 2, 2017.

Future annual minimum principal repayments are as follows:

Within one year	$	24,795
One to two years		11,211
Two to three years		566,296
Three to four years		12,180
Thereafter		39,535
	$	654,017

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2015	$	717,012
Draw downs and loan proceeds (net of capitalized deferred financing fees of $2,370)		90,784
Repayments		(69,499)
Amortization of deferred financing fees		1,169
Foreign currency translation adjustment		(18,063)
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

12. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company has defined benefit and non-pension post-retirement benefit plans in Canada, the United States and Germany. The defined benefit plans provide pensions based on years of service, years of contributions and earnings. The post-retirement benefit plans provide for the reimbursement of certain medical costs.

The plans are governed by the pension laws of the jurisdiction in which they are registered. The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. Local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

The assets of the defined benefit pension plans are held in segregated accounts isolated from the Company's assets. The plans are administered pursuant to applicable regulations, investment policies and procedures and to the mandate of an established pension committee. The pension committee oversees the administration of the pension plans, which include the following principal areas:

- Overseeing the funding, administration, communication and investment management of the plans;
- Selecting and monitoring the performance of all third parties performing duties in respect of the plans, including audit, actuarial and investment management services;
- Proposing, considering and approving amendments to the defined benefit pension plans;
- Proposing, considering and approving amendments of the investment policies and procedures;

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

- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

The assets of the defined benefit pension plans are invested and managed following all applicable regulations and investment policies and procedures, and reflect the characteristics and asset mix of each defined benefit pension plan. Investment and market return risk is managed by:

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;
- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

The pension plans are exposed to market risks such as changes in interest rates, inflation and fluctuations in investment values. The plans are also exposed to non-financial risks in the nature of membership mortality, demographic changes and regulatory change.

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

Accrued benefit obligation:

	Other post-retirement benefits	Pensions	December 31, 2017	Other post-retirement benefits	Pensions	December 31, 2016
Balance, beginning of the year	$ (48,111)	$ (64,551)	$ (112,662)	$ (48,744)	$ (63,053)	$ (111,797)
Benefits paid by the plan	1,619	1,946	3,565	1,772	3,132	4,904
Current service costs	(121)	(1,936)	(2,057)	(122)	(1,801)	(1,923)
Interest costs	(1,791)	(2,339)	(4,130)	(1,869)	(2,415)	(4,284)
Actuarial gains (losses) - experience	1,992	(35)	1,957	299	182	481
Actuarial gains (losses) - demographic assumptions	2,871	239	3,110	413	544	957
Actuarial gains (losses) - financial assumptions	(2,592)	(4,304)	(6,896)	(848)	(2,393)	(3,241)
Settlements	-	11	11	276	-	276
Foreign exchange translation	1,512	1,423	2,935	712	1,253	1,965
Balance, end of year	$ (44,621)	$ (69,546)	$ (114,167)	$ (48,111)	$ (64,551)	$ (112,662)

Plan Assets:

	Other post-retirement benefits	Pensions	December 31, 2017	Other post-retirement benefits	Pensions	December 31, 2016
Fair value, beginning of the year	$ -	$ 45,799	$ 45,799	$ -	$ 44,245	$ 44,245
Contributions paid into the plans	1,619	849	2,468	1,772	344	2,116
Benefits paid by the plans	(1,619)	(1,946)	(3,565)	(1,772)	(3,132)	(4,904)
Interest income	-	1,736	1,736	-	1,746	1,746
Administrative costs	-	(36)	(36)	-	(89)	(89)
Remeasurements, return on plan assets recognized in other comprehensive income	-	3,875	3,875	-	3,318	3,318
Foreign exchange translation	-	(1,368)	(1,368)	-	(633)	(633)
Fair value, end of year	$ -	$ 48,909	$ 48,909	$ -	$ 45,799	$ 45,799
Accrued benefit liability, end of year	**(44,621)**	**(20,637)**	**(65,258)**	**(48,111)**	**(18,752)**	**(66,863)**

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

Pension benefit expense recognized in net income:

	Other post-retirement benefits	Pensions	Year ended December 31, 2017	Other post-retirement benefits	Pensions	Year ended December 31, 2016
Current service costs	$ 121	$ 1,936	$ 2,057	$ 122	$ 1,801	$ 1,923
Net interest cost	1,791	603	2,394	1,869	669	2,538
Administrative costs	-	36	36	-	89	89
Curtailment/settlements	-	-	-	(276)	-	(276)
Net benefit plan expense	$ 1,912	$ 2,575	$ 4,487	$ 1,715	$ 2,559	$ 4,274

Amounts recognized in other comprehensive income (before income taxes):

	Year ended December 31, 2017	Year ended December 31, 2016
Actuarial gains (losses)	$ 2,046	$ 1,515

Plan assets are primarily composed of pooled funds that invest in fixed income and equities, common stocks and bonds that are actively traded. Plan assets are composed of:

Description	December 31, 2017	December 31, 2016
Equity	82.9%	86.3%
Debt securities	17.1%	13.7%
	100.0%	100.0%

The defined benefit obligation and plan assets are composed by country as follows:

	Year ended December 31, 2017				Year ended December 31, 2016			
	Canada	USA	Germany	Total	Canada	USA	Germany	Total
Present value of funded obligations	$ (30,698)	$ (28,636)	$ -	$ (59,334)	$ (27,083)	$ (28,717)	$ -	$ (55,800)
Fair value of plan assets	27,464	21,446	-	48,910	24,842	20,957	-	45,799
Funding status of funded obligations	(3,234)	(7,190)	-	(10,424)	(2,241)	(7,760)	-	(10,001)
Present value of unfunded obligations	(26,212)	(20,195)	(8,427)	(54,834)	(27,008)	(22,933)	(6,921)	(56,862)
Total funded status of obligations	$ (29,446)	$ (27,385)	$ (8,427)	$ (65,258)	$ (29,249)	$ (30,693)	$ (6,921)	$ (66,863)

There are significant assumptions made in the calculations provided by the actuaries and it is the responsibility of the Company to determine which assumptions could result in a significant impact when determining the accrued benefit obligations and pension expense.

Principal actuarial assumptions, expressed as weighted averages, are summarized below:-

Weighted average actuarial assumptions

	December 31, 2017	December 31, 2016
Defined benefit pension plans		
Discount rate used to calculate year end benefit obligation	3.3%	3.7%
Mortality table	CPM - RPP 2014 Priv	CPM - RPP 2014 Priv
Other post-employment benefit plans		
Discount rate to calculate year end benefit obligation	3.4%	3.9%
Mortality table	CPM - RPP 2014 Priv & Blue collar w/MP	CPM - RPP 2014 Priv & Blue collar w/MP
Health care trend rates		
Initial healthcare rate	5.9%	6.5%
Ultimate healthcare rate	4.5%	4.8%

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

Sensitivity of Key Assumptions

In the sensitivity analysis shown below, the Company determines the defined benefit obligation using the same method used to calculate the defined benefit obligations recognized in the consolidated balance sheets. Sensitivity is calculated by changing one assumption while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption will change at a time, and that some assumptions are correlated.

		Impact on defined benefit obligation		**Impact on defined benefit obligation**	
		December 31, 2017		**December 31, 2016**	
Pension Plans	Change in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.5%	Increase by 8.5%	Decrease by 7.7%	Increase by 8.6%
Life Expectancy	1 Year	Increase by 3.1%	Decrease by 3.19%	Increase by 3.10%	Decrease by 3.25%
Other post-retirement benefits					
Discount rate	0.50%	Decrease by 6.4%	Increase by 7.2%	Decrease by 6.3%	Increase by 7.1%
Medical costs	1 Year	Increase by 11.1%	Decrease by 9.2%	Increase by 12.0%	Decrease by 9.9%

13. INCOME TAXES

The components of income tax expense are as follows:

		Year ended December 31, 2017		**Year ended December 31, 2016**
Current income tax expense	$	(73,316)	$	(42,572)
Deferred income tax recovery		3,346		1,194
Total income tax expense	$	(69,970)	$	(41,378)

Taxes on items recognized in other comprehensive income or directly in equity in 2017 and 2016 were as follows:

Deferred tax charge on:		**Year ended December 31, 2017**		**Year ended December 31, 2016**
Employee benefit plan actuarial losses	$	(533)	$	(392)
US tax reform impact on employee benefit plans	$	(1,216)	$	-
Cumulative translation adjustments		(257)		(2,080)
	$	(2,006)	$	(2,472)

Reconciliation of effective tax rate

The provision for income taxes differs from the result that would be obtained by applying statutory income tax rates to income before income taxes. The difference results from the following:

		Year ended December 31, 2017		**Year ended December 31, 2016**
Income before income taxes	$	229,236	$	133,339
Tax at Statutory income tax rate of 26.5% (2016 - 26.5%)		60,748		35,335
Increase (decrease) in income taxes resulting from:				
Impact of US tax reforms		19,313		-
Utilization of losses previously not benefited		(4,861)		-
Tax audit settlements and changes in estimates		(986)		(2,455)
Revaluation due to foreign exchange and inflation		1,403		2,971
Rate differences and deductions allowed in foreign jurisdictions		(1,812)		(3,340)
Current year tax losses not benefited and withholding tax expensed		6,085		8,008
Recognition of previously unrecognized deferred tax assets		(12,758)		(1,099)
Stock-based compensation and other non-deductible expenses		2,838		1,958
	$	69,970	$	41,378
Effective income tax rate applicable to income before income taxes		30.5%		31.0%

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

The movement of deferred tax assets is summarized below:

	Losses	Employee benefits	Interest and accruals	PPE and intangible assets	Other	Total
December 31, 2015	$ 125,635	$ 20,675	$ 13,583	$ 17,067	$ 5,272	$ 182,232
Benefit (charge) to income	(8,374)	198	11,739	(2,039)	1,594	3,118
Benefit (charge) to other comprehensive income	-	(392)	-	-	171	(221)
Translation and other	(3,865)	(420)	(190)	(912)	(40)	(5,427)
December 31, 2016	113,396	20,061	25,132	14,116	6,997	179,702
Benefit (charge) to income	(18,389)	(1,732)	(5,419)	(2,387)	156	(27,771)
Charge to other comprehensive income	-	(1,749)	-	-	(74)	(1,823)
Translation and other	(6,523)	(583)	(1,339)	801	(291)	(7,935)
December 31, 2017	$ 88,484	$ 15,997	$ 18,374	$ 12,530	$ 6,788	$ 142,173

The movement of deferred tax liabilities is summarized below:

	PPE and intangible assets	Other	Total
December 31, 2015	$ (108,800)	$ (5,771)	$ (114,571)
Benefit (charge) to income	(2,477)	553	(1,924)
Charge to other comprehensive income	-	(2,251)	(2,251)
Translation and other	499	13	512
December 31, 2016	(110,778)	(7,456)	(118,234)
Benefit to income	29,917	1,200	31,117
Charge to other comprehensive income	-	(184)	(184)
Translation and other	5,179	(251)	4,928
December 31, 2017	$ (75,682)	$ (6,691)	$ (82,373)

Net deferred asset at December 31, 2016	$ 61,468
Net deferred asset at December 31, 2017	$ 59,800

The Company has accumulated approximately $527,749 (December 31, 2016 - $580,792) in non-capital losses that are available to reduce taxable income in future years. If unused these losses will expire as follows:

Year	
2018-2020	$ 4,153
2021-2025	873
2026-2037	477,074
Indefinite	45,649
	$ 527,749

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

Extensive changes to the US tax system were enacted on December 22, 2017, which, among other changes, substantially reduced the US federal corporate tax rate from 35% to 21% with effect from January 1, 2018. As a result of this change, the Company’s deferred tax asset in the US decreased as at December 31, 2017 with a corresponding one-time, non-cash increase in income tax expense of $19,313.

A deferred tax asset of $60,369 in the United States (December 31, 2016 - $72,746) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently, it has been recognized.

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

At December 31, 2017, deferred tax assets have not been recognized in respect of the following items:

		2017		2016
Tax losses in foreign jurisdictions	$	43,857	$	98,202
Deductible temporary differences in foreign jurisdictions		3,961		1,575
Other capital items		188		188
	$	48,006	$	99,965

Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately $612,983 at December 31, 2017 (December 31, 2016 - $518,388).

Future changes in tax law, in any of the jurisdictions in which the Company has a presence, could significantly impact the Company's provision for income taxes, taxes payable, and deferred tax asset and liability balances.

14. CAPITAL STOCK

Common shares outstanding:	**Number**		**Amount**
Balance, December 31, 2015	86,374,667	$	709,396
Exercise of stock options	110,000		1,114
Balance, December 31, 2016	86,484,667	$	710,510
Exercise of stock options	261,167		2,915
Balance, December 31, 2017	86,745,834	$	713,425

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

Stock options

The Company has one stock option plan for key employees. Under the plan the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with stock option plan and the policies of the Company, and the options have a maximum term of 10 years. Options are granted throughout the year and vest between zero and four years.

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

	Year ended December 31, 2017			Year ended December 31, 2016		
	Number of options		**Weighted average exercise price**	**Number of options**		**Weighted average exercise price**
Balance, beginning of period	3,010,617	$	11.38	4,340,617	$	12.38
Exercised during the period	(261,167)		8.09	(110,000)		7.21
Cancelled during the period	(905,000)		14.91	(1,220,000)		15.31
Balance, end of period	1,844,450	$	10.12	3,010,617	$	11.38
Options exercisable, end of period	1,844,450	$	10.12	2,885,617	$	11.36

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

The following is a summary of the issued and outstanding common share purchase options as at December 31, 2017:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$6.00 - 8.99	688,701	2008 - 2012	2018 - 2022
$9.00 - 9.99	50,000	2008	2018
$10.00 - 15.99	1,105,749	2008 - 2015	2018 - 2025
Total share purchase options	1,844,450		

For the year ended December 31, 2017, the Company expensed $123 (2016 - $333), 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 December 31, 2017:

	Year ended December 31, 2017	Year ended December 31, 2016
Units outstanding, beginning of period	67,837	-
Units granted during the period	54,588	67,623
Units settled during the period	-	-
Units for dividends earned during the period (issued twice a year)	888	214
Units outstanding, end of period	123,313	67,837

The DSUs granted during the years ended December 31, 2017 and 2016 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of $10.99 and $8.87, respectively, on the date of grant. At December 31, 2017, the fair value of all outstanding DSUs amounted to $1,939 (December 31, 2016 - $568). For the year ended December 31, 2017, DSU compensation expense, including changes in fair value during the year, amounted to $1,371 (year-ended December 31, 2016 - $568), which was recorded in selling, general and administrative expense in the consolidated statement of operations.

Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSU's and PSUs for the year ended December 31, 2017:

	RSUs	PSUs	Total
Units outstanding, beginning of period	-	-	-
Units granted during the period	77,304	77,304	154,608
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, end of period	77,304	77,304	154,608

The RSUs and PSUs granted during the year ended December 31, 2017 had a weighted average fair value per unit of $11.92 on the date of grant. For the year ended December 31, 2017, RSU and PSU compensation expense, including changes in fair value during the year, amounted to $1,380 (year-ended December 31, 2016 - $Nil), which was recorded in selling, general and administrative expense in the consolidated statement of operations.

Unrecognized RSU and PSU compensation expense as at December 31, 2017 was $803 (December 31, 2016 - $Nil) and will be recognized in profit and loss over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the year ended December 31, 2017 are shown in the table below:

	2017
Expected life (years)	2.38
Risk free interest rate	1.15%

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

15. EARNINGS PER SHARE

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

	Year ended December 31, 2017		Year ended December 31, 2016	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,527,271	$ 1.84	86,389,379	$ 1.07
Effect of dilutive securities:				
Stock options	252,035	-	137,904	-
Diluted	86,779,306	$ 1.84	86,527,283	$ 1.07

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 year ended December 31, 2017, 767,000 options (year-ended December 31, 2016 - 2,010,749) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. RESEARCH AND DEVELOPMENT COSTS

	Year ended December 31, 2017	Year ended December 31, 2016
Research and development costs, gross	$ 27,571	$ 23,825
Capitalized development costs	(14,211)	(12,624)
Amortization of capitalized development costs	13,237	13,652
Net expense	$ 26,597	$ 24,853

17. PERSONNEL EXPENSES

The statements of operations present operating expenses by function. Operating expenses include the following personnel-related expenses:

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries and other short-term employee benefits		$ 873,731	$ 877,674
Expenses related to pension and post-retirement benefits	12	4,487	4,274
RSU and PSU compensation expense (including changes in fair value during the year)	14	1,380	-
DSU compensation expense (including changes in fair value during the year)	14	1,371	568
Stock-based compensation expense	14	123	333
		$ 881,092	$ 882,849

18. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

	Year ended December 31, 2017	Year ended December 31, 2016
Debt interest, gross	$ (25,817)	$ (27,404)
Capitalized interest - at an average rate of 2.8% (2016 - 2.7%)	3,290	3,208
Finance expense	$ (22,527)	$ (24,196)

	Year ended December 31, 2017	Year ended December 31, 2016
Net foreign exchange gain (loss)	$ 1,167	$ (2,228)
Unrealized gain on derivative instruments (note 7)	3,697	-
Other income, net	275	319
Other finance income (expense)	$ 5,139	$ (1,909)

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

19. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated financial statements. The Company uses segment 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 segments:

	Year ended December 31, 2017			Year ended December 31, 2016		
	Sales	Property, plant and equipment	Operating Income	Sales	Property, plant and equipment	Operating Income
North America						
Canada	$ 778,930	$ 158,213		$ 886,936	$ 176,901	
USA	1,360,796	400,618		1,629,029	408,430	
Mexico	954,700	410,218		872,844	418,353	
Eliminations	(180,640)	-		(166,149)	-	
	$ 2,913,786	$ 969,049	$ 213,493	$ 3,222,660	1,003,684	$ 128,783
Europe						
Germany	433,806	134,366		415,056	93,061	
Spain	162,832	91,157		167,575	78,443	
Slovakia	61,026	14,323		55,150	13,066	
Eliminations	(635)	-		(1,699)	-	
	657,029	239,846	38,388	636,082	184,570	35,003
Rest of the World	132,067	73,729	(5,257)	122,989	68,993	(4,342)
Eliminations	(12,383)			(13,324)		
	$ 3,690,499	$ 1,282,624	$ 246,624	$ 3,968,407	$ 1,257,247	$ 159,444

20. 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)

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 71,193	$ 71,193	$ -	$ -
Other assets (note 7)	15,265	11,275	3,990	-
Foreign exchange forward contracts (note 9)	$ (146)	$ -	$ (146)	$ -

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 59,165	$ 59,165	$ -	$ -
Foreign exchange forward contracts (note 9)	$ (208)	$ -	$ (208)	$ -

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:

December 31, 2017	Fair value through profit or loss	Fair value through other comprehensive income	Loans and receivables	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 556,049	$ -	$ 556,049	$ 556,049
Other assets (note 7)	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)

December 31, 2016	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:					
Trade and other receivables	$ -	$ 568,445	$ -	$ 568,445	$ 568,445
	-	568,445	-	568,445	568,445
FINANCIAL LIABILITIES:					
Trade and other payables	-	-	(706,799)	(706,799)	(706,799)
Long-term debt	-	-	(721,403)	(721,403)	(721,403)
Foreign exchange forward contracts	(208)	-	-	(208)	(208)
	(208)	-	(1,428,202)	(1,428,410)	(1,428,410)
Net financial assets (liabilities)	$ (208)	$ 568,445	$ (1,428,202)	$ (859,965)	$ (859,965)

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

Risk Management

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

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

(a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 32.5%, 28.1%, and 14.9% of its production sales for the year ended December 31, 2017 (December 31, 2016 - 31.5%, 28.6% and 15.0%). 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 trade accounts receivable that were past due as at December 31, 2017 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:

	December 31, 2017	December 31, 2016
0-60 days	$ 501,336	$ 526,483
61-90 days	19,853	16,540
Greater than 90 days	17,641	12,051
	$ 538,830	$ 555,074

(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 December 31, 2017, the Company had cash of $71,193 and banking facilities available as discussed in note 11. All of the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

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

(c) Interest rate risk

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

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

	Carrying amount	
	December 31, 2017	December 31, 2016
Variable rate instruments	$ 551,656	$ 631,879
Fixed rate instruments	102,361	89,524
	$ 654,017	$ 721,403

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $6,015 (December 31, 2016 - $6,246) on the Company's consolidated financial results for the year ended December 31, 2017.

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

(d) Currency risk

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

At December 31, 2017, the Company had committed to the following foreign exchange contracts:

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Sell Canadian Dollars	$	20,000	1.2835	1
Buy Mexican Peso	$	30,468	19.3319	2

The aggregate value of these forward contracts as at December 31, 2017 was a pre-tax loss of $146 and was recorded in trade and other payables (December 31, 2016 - loss of $208).

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

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

December 31, 2016		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	289,124	€	59,222	$	27,941	R$	15,359	¥	156,848
Trade and other payables		(353,541)		(73,297)		(116,038)		(17,432)		(79,703)
Long-term debt		(295,971)		(38,813)		-		(495)		-
	$	(360,388)	€	(52,888)	$	(88,097)	R$	(2,568)	¥	77,145

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2017 and 2016:

	Average rate		Closing rate	
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
USD	1.3029	1.3286	1.2571	1.3427
EURO	1.4576	1.4727	1.5089	1.4169
PESO	0.0688	0.0722	0.0639	0.0651
BRL	0.4077	0.3780	0.3795	0.4125
CNY	0.1920	0.2012	0.1924	0.1930

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 December 31, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2017 by the amounts shown below, assuming all other variables remain constant:

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

	Year ended December 31, 2017	Year ended December 31, 2016
USD	$ (6,333)	$ (1,226)
EURO	(4,559)	(4,114)
BRL	938	671
CNY	(305)	(57)
	$ (10,259)	$ (4,726)

A weakening of the Canadian dollar against the above currencies at December 31 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.

21. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain manufacturing facilities, office equipment and vehicles under operating leases and enters into purchase obligations in the normal course of business related to inventory, services, tooling and property, plant and equipment. The aggregate expected payments towards those obligations are as follows:

	December 31, 2017	December 31, 2016
Future minimum lease payments under operating leases	$ 210,189	$ 195,272
Capital and other purchase commitments (all due in less than one year)	416,130	403,434
	$ 626,319	$ 598,706

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

Future minimum lease payments under operating leases are due as follows:

		December 31, 2017		December 31, 2016
Less than one year	$	34,735	$	27,486
Between one and five years		100,090		84,276
More than five years		75,364		83,510
	$	210,189	$	195,272

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 $83,110 (BRL $219,460) including interest and penalties to December 31, 2017 (December 31, 2016 - $82,453 or BRL 199,886). 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 $57,152 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.

22. 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 December 31, 2017, the amount of the program financing was $75,189 (December 31, 2016 - $65,468) 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 2017 or 2016. 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.

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

23. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include the Directors and the most Senior Corporate Officers of the Company that are primarily responsible for planning, directing, and controlling the Company's business activities.

The compensation expense associated with key management for employee services was included in employee salaries and benefits as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries, pension and other short-term employee benefits	$ 12,487	$ 11,660
Termination benefits *	1,767	-
RSU and PSU compensation expense (including changes in fair value during the year)	1,380	-
DSU compensation expense (including changes in fair value during the year)	1,371	568
Stock-based compensation expense	123	333
Net expense	$ 17,128	$ 12,561

*During the third quarter of 2017, David Rashid ceased to be an Executive Vice President of Operations of the Company. Upon his departure, David Rashid was entitled to the termination benefit as set out in his employment contract in the aggregate amount of $1.8 million payable over a twelve-month period. The $1.8 million termination benefit was set up as a liability and expensed during the third quarter of 2017. The liability is included in trade and other payables.

24. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company:

	Country of incorporation	Ownership interest
Martinrea Metallic Canada Inc.	Canada	100%
Martinrea Automotive Systems Canada Ltd.	Canada	100%
Martinrea Automotive Inc.	Canada	100%
Royal Automotive Group Ltd.	Canada	100%
Martinrea Metal Holdings (USA), Inc.	United States of America	100%
Martinrea Pilot Acquisition Inc.	Canada	100%
Martinrea Slovakia Fluid Systems S.R.O.	Slovakia	100%
Martinrea Pilot Acquisition II LLC	United States of America	100%
Martinrea Internacional de Mexico, S.A. de C.V.	Mexico	100%
Martinrea China Holdings Inc.	Canada	100%
Martinrea Honsel Holdings B.V.	Netherlands	100%