

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the Year ended December 31, 2017**

The following management discussion and analysis (“MD&A”) was prepared as of March 1, 2018 and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company’s Annual Information Form for the year ended December 31, 2017, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (TSX:MRE) (“Martinrea” or the “Company”) is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs approximately 15,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea’s vision for the future is to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. The Company’s mission is to deliver: outstanding quality products and services to our customers; meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth; superior long term investment returns to our stakeholders; and positive contributions to our communities as good corporate citizens.

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company’s disclosures that it believes provide the most appropriate basis on which to evaluate the Company’s results.

**OVERALL RESULTS**

The following tables set out certain highlights of the Company’s performance for the years ended December 31, 2017 and 2016. Refer to the Company’s audited consolidated financial statements for the year ended December 31, 2017 for a detailed account of the Company’s performance for the periods presented in the table below.

	Year ended December 31, 2017	Year ended December 31, 2016	\$ Change	% Change
Sales	\$ 3,690,499	\$ 3,968,407	(277,908)	(7.0%)
Gross Margin	484,601	432,050	52,551	12.2%
Operating Income	246,624	159,444	87,180	54.7%
Net Income for the period	159,266	91,961	67,305	73.2%
Net Income Attributable to Equity Holders of the Company	\$ 159,543	\$ 92,380	67,163	72.7%
Net Earnings per Share – Basic and Diluted	\$ 1.84	\$ 1.07	0.77	72.0%
<b><u>Non-IFRS Measures*</u></b>				
Adjusted Operating Income	\$ 236,807	\$ 197,707	39,100	19.8%
<i>% of Sales</i>	6.4%	5.0%		
Adjusted EBITDA	401,493	350,357	51,136	14.6%
<i>% of Sales</i>	10.9%	8.8%		
Adjusted Net Income Attributable to Equity Holders of the Company	165,519	130,085	35,434	27.2%
Adjusted Net Earnings per Share – Basic	\$ 1.91	\$ 1.51	0.40	26.5%
Adjusted Net Earnings per Share – Diluted	\$ 1.91	\$ 1.50	0.41	27.3%

The following table sets out a detailed account of the Company's performance for the fourth quarters of 2017 and 2016 (unaudited).

	Three months ended December 31, 2017		Three months ended December 31, 2016		\$ Change	% Change
Sales	\$	878,642	\$	990,407	(111,765)	(11.3%)
Cost of sales (excluding depreciation)		(716,927)		(852,732)	135,805	(15.9%)
Depreciation of property, plant and equipment (production)		(37,673)		(33,363)	(4,310)	12.9%
Gross Margin		124,042		104,312	19,730	18.9%
Research and development costs		(6,600)		(7,239)	639	(8.8%)
Selling, general and administrative		(52,531)		(47,971)	(4,560)	9.5%
Depreciation of property, plant and equipment (non-production)		(2,596)		(2,258)	(338)	15.0%
Amortization of customer contracts and relationships		(530)		(597)	67	(11.2%)
Impairment of assets		(7,488)		-	(7,488)	-
Gain on sale of land and building		13,374		-	13,374	-
Loss on disposal of property, plant and equipment		(144)		(271)	127	(46.9%)
Operating Income	\$	67,527	\$	45,976	21,551	46.9%
Finance expense		(5,735)		(6,084)	349	(5.7%)
Other finance income		2,681		661	2,020	305.6%
Income before taxes	\$	64,473	\$	40,553	23,920	59.0%
Income tax expense		(32,107)		(9,923)	(22,184)	223.6%
Net Income for the period		32,366		30,630	1,736	5.7%
Net Income Attributable to Equity Holders of the Company	\$	32,366	\$	30,753	1,613	5.2%
Net Earnings per Share - Basic and Diluted	\$	0.37	\$	0.36	0.01	2.8%
<b>Non-IFRS Measures*</b>						
Adjusted Operating Income	\$	61,641	\$	45,976	15,665	34.1%
% of sales		7.0%		4.6%		
Adjusted EBITDA		105,830		86,072	19,758	23.0%
% of sales		12.0%		8.7%		
Adjusted Net Income Attributable to Equity Holders of the Company		43,179		30,753	12,426	40.4%
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.50	\$	0.36	0.14	38.9%

#### **\*Non-IFRS Measures**

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

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

	Three months ended December 31, 2017		Three months ended December 31, 2016	
Net Income Attributable to Equity Holders of the Company	\$	32,366	\$	30,753
Unusual and Other Items (after-tax)*		10,813		-
Adjusted Net Income Attributable to Equity Holders of the Company	\$	43,179	\$	30,753

	Three months ended December 31, 2017	Three months ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	\$ 32,366	\$ 30,753
Non-controlling interest	-	(123)
Income tax expense	32,107	9,923
Other finance income – excluding Unusual and Other Items*	(359)	(661)
Finance expense	5,735	6,084
Unusual and Other Items (before-tax)*	(8,208)	-
Adjusted Operating Income	\$ 61,641	\$ 45,976
Depreciation of property, plant and equipment	40,269	35,621
Amortization of intangible assets	3,776	4,204
Loss on disposal of property, plant and equipment	144	271
Adjusted EBITDA	\$ 105,830	\$ 86,072

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

	Year ended December 31, 2017	Year ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	\$ 159,543	\$ 92,380
Unusual and Other Items (after-tax)*	5,976	37,705
Adjusted Net Income Attributable to Equity Holders of the Company	\$ 165,519	\$ 130,085

	Year ended December 31, 2017	Year ended December 31, 2016
Net Income Attributable to Equity Holders of the Company	\$ 159,543	\$ 92,380
Non-controlling interest	(277)	(419)
Income tax expense	69,970	41,378
Other finance expense (income) – excluding Unusual and Other Items*	(1,442)	1,909
Finance expense	22,527	24,196
Unusual and Other Items (before-tax)*	(13,514)	38,263
Adjusted Operating Income	\$ 236,807	\$ 197,707
Depreciation of property, plant and equipment	149,670	136,344
Amortization of intangible assets	15,399	15,959
Loss (gain) on disposal of property, plant and equipment	(383)	347
Adjusted EBITDA	\$ 401,493	\$ 350,357

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

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below. Certain comparative information has been reclassified where relevant to conform to the current financial statement presentation adopted in 2017.

## **SALES**

### ***Three months ended December 31, 2017 to three months ended December 31, 2016 comparison***

	Three months ended December 31, 2017	Three months ended December 31, 2016	\$ Change	% Change
North America	\$ 674,852	\$ 805,487	(130,635)	(16.2%)
Europe	163,949	150,983	12,966	8.6%
Rest of the World	41,904	38,165	3,739	9.8%
Eliminations	(2,063)	(4,228)	2,165	(51.2%)
Total Sales	\$ 878,642	\$ 990,407	(111,765)	(11.3%)

The Company's consolidated sales for the fourth quarter of 2017 decreased by \$111.8 million or 11.3% to \$878.6 million as compared to \$990.4 million for the fourth quarter of 2016. The decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the fourth quarter of 2017 in the Company's North America operating segment decreased by \$130.6 million or 16.2% to \$674.9 million from \$805.5 million for the fourth quarter of 2016. The decrease was due to a \$48.8 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the fourth quarter of 2017 of approximately \$31.2 million as compared to the fourth quarter of 2016; and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Ford Fusion, Chevrolet Malibu, and other platforms late in their life cycle, and programs that ended production during or subsequent to the fourth quarter of 2016 such as the previous version of the GM Equinox/Terrain. These negative factors were partially offset by higher year-over-year OEM production volumes on certain light-vehicle platforms such as the Ford Escape and FCA's Pentastar engine block program; and the launch of new programs during or subsequent to the fourth quarter of 2016 including the GM Bolt and next generation GM Equinox/Terrain, fourth quarter production volumes of which were impacted by an employee strike at GM's assembly plant in Ingersoll, Ontario.

Sales for the fourth quarter of 2017 in the Company's Europe operating segment increased by \$13.0 million or 8.6% to \$164.0 million from \$151.0 million for the fourth quarter of 2016. The increase can be attributed to a \$6.4 million increase in tooling sales, a \$2.5 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2016, and higher overall production volumes in the Company's Martinrea Honsel German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler.

Sales for the fourth quarter of 2017 in the Company's Rest of the World operating segment increased by \$3.7 million or 9.8% to \$41.9 million from \$38.2 million in the fourth quarter of 2016. The increase was due to a \$4.0 million increase in tooling sales and higher year-over-year production sales in the Company's operating facility in Brazil; partially offset by a \$1.1 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2016, and lower year-over-year OEM production volumes on the Ford Mondeo/Taurus platforms in China.

Overall tooling sales decreased by \$38.4 million to \$68.8 million for the fourth quarter of 2017 from \$107.2 million for the fourth quarter of 2016.

**Year ended December 31, 2017 to year ended December 31, 2016 comparison**

		Year ended December 31, 2017		Year ended December 31, 2016	\$ Change	% Change
North America	\$	2,913,786	\$	3,222,660	(308,874)	(9.6%)
Europe		657,029		636,082	20,947	3.3%
Rest of the World		132,067		122,989	9,078	7.4%
Eliminations		(12,383)		(13,324)	941	(7.1%)
<b>Total Sales</b>	\$	<b>3,690,499</b>	\$	<b>3,968,407</b>	<b>(277,908)</b>	<b>(7.0%)</b>

The Company's consolidated sales for the year ended December 31, 2017 decreased by \$277.9 million or 7.0% to \$3,690.5 million as compared to \$3,968.4 million for the year ended December 31, 2016. The total decrease in sales was driven by a decrease in the Company's North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2017 in the Company's North America operating segment decreased by \$308.9 million or 9.6% to \$2,913.8 million from \$3,222.7 million for the year ended December 31, 2016. The decrease was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately \$47.7 million as compared to the comparative period of 2016; a \$44.9 million decrease in tooling sales; and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, customer production of which ended at the end of 2016, Ford Fusion, Chevrolet Malibu, and other platforms late in their product life cycle, and programs that ended production during or subsequent to the year ended December 31, 2016 such as the previous version of the GM Equinox/Terrain. These negative factors were partially offset by a year-over-year increase in production volumes on FCA's Pentastar engine block program which was down during the first quarter of 2016 for re-tooling; higher year-over-year volumes on certain light vehicle platforms such as the Ford Escape, GM Pick-up truck/SUV platform and other GM programs previously impacted by unplanned OEM shutdowns during the second quarter of 2016 because of an earthquake in Japan which disrupted the supply chain; and the launch of new programs during or subsequent to the year ended December 31, 2016 including the GM Bolt and next generation GM Equinox/Terrain, 2017 production volumes of which were impacted by an employee strike at GM's assembly plant in Ingersoll, Ontario that lasted four weeks.

Sales for the year ended December 31, 2017 in the Company's Europe operating segment increased by \$20.9 million or 3.3% to \$657.0 million from \$636.1 million for the year ended December 31, 2016. The increase can be attributed to higher production volumes in the Company's Martinrea Honsel German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler, and an \$8.0 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately \$6.3 million as compared to the comparative period of 2016.

Sales for the year ended December 31, 2017 in the Company's Rest of the World operating segment increased by \$9.1 million or 7.4% to \$132.1 million from \$123.0 million for the year ended December 31, 2016. The increase was mainly due to a year-over-year increase in production sales in the Company's operating facility in Brazil and higher year-over-year production sales in China related to GM's CT6 vehicle platform; partially offset by a \$5.1 million decrease in tooling sales and a \$0.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the year ended December 31, 2016.

Overall tooling sales decreased by \$42.0 million to \$210.9 million for the year ended December 31, 2017 from \$252.9 million for the year ended December 31, 2016.

## **GROSS MARGIN**

### ***Three months ended December 31, 2017 to three months ended December 31, 2016 comparison***

	<b>Three months ended December 31, 2017</b>	<b>Three months ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 124,042	\$ 104,312	19,730	18.9%
% of Sales	14.1%	10.5%		

The gross margin percentage for the fourth quarter of 2017 of 14.1% increased as a percentage of sales by 3.6% as compared to the gross margin percentage for the fourth quarter of 2016 of 10.5%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2016; and
- a decrease in tooling sales which typically earn low margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

### ***Year ended December 31, 2017 to year ended December 31, 2016 comparison***

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 484,601	\$ 432,050	52,551	12.2%
% of Sales	13.1%	10.9%		

The gross margin percentage for the year ended December 31, 2017 of 13.1% increased as a percentage of sales by 2.2% as compared to the gross margin percentage for the year ended December 31, 2016 of 10.9%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016; and
- a decrease in tooling sales which typically earn low margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

## **SELLING, GENERAL & ADMINISTRATIVE ("SG&A")**

### **Three months ended December 31, 2017 to three months ended December 31, 2016 comparison**

		<b>Three months ended December 31, 2017</b>		<b>Three months ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Selling, general & administrative	\$	52,531	\$	47,971	4,560	9.5%
% of Sales		6.0%		4.8%		

SG&A expense for the fourth quarter of 2017 increased by \$4.6 million to \$52.5 million as compared to \$48.0 million for the fourth quarter of 2016. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work; a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives; and higher year-over-year incentive compensation based on the performance of the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

### **Year ended December 31, 2017 to year ended December 31, 2016 comparison**

		<b>Year ended December 31, 2017</b>		<b>Year ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Selling, general & administrative	\$	211,533	\$	198,109	13,424	6.8%
% of Sales		5.7%		5.0%		

SG&A expense, before adjustments, for the year ended December 31, 2017 increased by \$13.4 million to \$211.5 million as compared to \$198.1 million for the year ended December 31, 2016. Excluding the unusual and other items recorded in SG&A expense incurred during the year ended December 31, 2017 as explained in Table B under "Adjustments to Net Income", SG&A expense for the year ended December 31, 2017 increased by \$11.7 million to \$209.8 million from \$198.1 million for the comparative period of 2016. The increase can be attributed to approximately \$5.0 million in litigation costs related to certain employee related matters in the Company's operating facility in Brazil; increased costs incurred at new and/or expanded facilities launching and ramping up new work; a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives; and higher year-over-year incentive compensation based on the performance of the business.

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

### **Three months ended December 31, 2017 to three months ended December 31, 2016 comparison**

		<b>Three months ended December 31, 2017</b>		<b>Three months ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Depreciation of PP&E (production)	\$	37,673	\$	33,363	4,310	12.9%
Depreciation of PP&E (non-production)		2,596		2,258	338	15.0%
Amortization of customer contracts and relationships		530		597	(67)	(11.2%)
Amortization of development costs		3,246		3,607	(361)	(10.0%)
Total depreciation and amortization	\$	44,045	\$	39,825	4,220	10.6%

Total depreciation and amortization expense for the fourth quarter of 2017 increased by \$4.2 million to \$44.0 million as compared to \$39.8 million for the fourth quarter of 2016. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base resulting from new and replacement business.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the fourth quarter of 2016. The Company continues to make significant investments in the business in light of its backlog of business and growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 4.3% for the fourth quarter of 2017 from 3.4% for the fourth quarter of 2016 due to lower year-over-year sales as previously discussed, and recent investments put into production.

**Year ended December 31, 2017 to year ended December 31, 2016 comparison**

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Depreciation of PP&E (production)	\$ 140,018	\$ 127,617	12,401	9.7%
Depreciation of PP&E (non-production)	9,652	8,727	925	10.6%
Amortization of customer contracts and relationships	2,162	2,307	(145)	(6.3%)
Amortization of development costs	13,237	13,652	(415)	(3.0%)
<b>Total depreciation and amortization</b>	<b>\$ 165,069</b>	<b>\$ 152,303</b>	<b>12,766</b>	<b>8.4%</b>

Total depreciation and amortization expense for the year ended December 31, 2017 increased by \$12.8 million to \$165.1 million as compared to \$152.3 million for the year ended December 31, 2016. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base resulting from equipment purchases to support new and replacement business. The year-over-year increase in total depreciation and amortization expense was partially offset by lower depreciation and amortization expense recognized at an operating facility in Detroit, Michigan due to certain assets having been impaired during the second quarter of 2016.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 3.8% for the year ended December 31, 2017 compared to 3.2% for the year ended December 31, 2016 due to lower year-over-year sales, as previously discussed, and recent investments put into production.

**ADJUSTMENTS TO NET INCOME**  
**(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

Adjusted Net Income excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

**TABLE A***Three months ended December 31, 2017 to three months ended December 31, 2016 comparison*

	For the three months ended December 31, 2017	For the three months ended December 31, 2016	(a)-(b) Change
	(a)	(b)	
<b>NET INCOME (A)</b>	<b>\$32,366</b>	<b>\$30,753</b>	<b>\$1,613</b>
<b>Add Back - Unusual and Other Items:</b>			
Gain on sale of land and building (1)	(13,374)	-	(13,374)
Unrealized gain on derivative instruments (2)	(2,322)	-	(2,322)
Impairment of assets (4)	7,488	-	7,488
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>(\$8,208)</b>	<b>-</b>	<b>(\$8,208)</b>
Tax impact of above items (6)	(292)	-	(292)
Impact of US tax reforms on deferred tax asset (7)	19,313	-	19,313
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)</b>	<b>\$10,813</b>	<b>-</b>	<b>\$10,813</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$43,179</b>	<b>\$30,753</b>	<b>\$12,426</b>
Number of Shares Outstanding – Basic ('000)	86,593	86,404	
Adjusted Basic Net Earnings Per Share	\$0.50	\$0.36	
Number of Shares Outstanding – Diluted ('000)	87,101	86,466	
Adjusted Diluted Net Earnings Per Share	\$0.50	\$0.36	



**TABLE B**

Year ended December 31, 2017 to year ended December 31, 2016 comparison

	For the year ended December 31, 2017 (a)	For the year ended December 31, 2016 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$159,543</b>	<b>\$92,380</b>	<b>\$67,163</b>
<b>Add Back - Unusual and Other Items:</b>			
Gain on sale of land and building (1)	(19,072)	-	(19,072)
Unrealized gain on derivative instruments (2)	(3,697)	-	(3,697)
Executive separation agreement (3)	1,767	-	1,767
Impairment of assets (4)	7,488	34,579	(27,091)
Restructuring costs (5)	-	3,684	(3,684)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>(\$13,514)</b>	<b>\$38,263</b>	<b>(\$51,777)</b>
Tax impact of above items (6)	177	(558)	735
Impact of US tax reforms on deferred tax asset (7)	19,313	-	19,313
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)</b>	<b>\$5,976</b>	<b>\$37,705</b>	<b>(\$31,729)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$165,519</b>	<b>\$130,085</b>	<b>\$35,434</b>
Number of Shares Outstanding – Basic ('000)	86,527	86,389	
Adjusted Basic Net Earnings Per Share	\$1.91	\$1.51	
Number of Shares Outstanding – Diluted ('000)	86,779	86,527	
Adjusted Diluted Net Earnings Per Share	\$1.91	\$1.50	

**(1) Gain on sale of land and building**

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 \$31.0 million (net of closing costs of \$0.5 million) resulting in a pre-tax gain of \$13.4 million. The corresponding leaseback of the assets is for a term of ten years at market rates.

During the first quarter of 2017, in connection with the relocation of an existing operation to another manufacturing facility, a building owned by the Company in Mississauga, Ontario was sold on an "as-is, where-is" basis. The building was sold for proceeds of \$9.9 million (net of closing costs of \$0.4 million) resulting in a pre-tax gain of \$5.7 million.

**(2) Unrealized gain on derivative instruments**

In the third quarter of 2017, the Company acquired 5.5 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 \$2.5 million through a private placement offering (the investment is further described in note 7 of the consolidated financial statements and later on in this MD&A under the section "Investments"). As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2.75 million common shares in NanoXplore at a price of \$0.70 per share for a period of up to two years after issuance. The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period with the change in fair value recorded through profit or loss. As at December 31, 2017, the warrants had a fair value of \$4.0 million which resulted in an unrealized gain of \$3.7 million for the year ended December 31, 2017, of which \$2.3 million was recognized in the fourth quarter, recorded in Other finance income. This unrealized gain has been added back for Adjusted Net Income purposes.

### **(3) Executive separation agreement**

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

### **(4) Impairment of assets**

During the fourth quarter of 2017, in conjunction with the Company's annual business planning cycle, the Company recorded an impairment charge on PP&E of \$7.5 million. 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 re-deployed.

During the second quarter of 2016, the Company recorded impairment charges on PP&E, intangible assets and inventories totaling \$34.6 million (US\$26.6 million) related to an operating facility in Detroit, Michigan included in the North America 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.

### **(5) Restructuring costs**

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's operating facility in Meschede, Germany. In connection with these restructuring activities, \$1.8 million (€1.2 million) of employee related severance was recognized during the second quarter of 2016. No further costs related to this restructuring are expected.

Other additions to the restructuring accrual during 2016 totaled \$1.9 million (US\$1.4 million) and represent employee-related payouts resulting from the closure of the operating facility in Detroit, Michigan as described above.

### **(6) Tax impact of above items**

The tax impact of the adjustments recorded to income in 2017 of \$0.3 million reflects a lower tax effect on the gain on sale of land and building and the unrealized gain on derivative instruments due to the capital nature of the gains for tax purposes (capital gains are generally taxed at lower rates).

The tax impact of the adjustments recorded to income during 2016 of \$0.6 million represents solely the corresponding tax effect on the \$1.8 million in restructuring costs incurred in Meschede, Germany. The \$34.6 million in impairment charges and \$1.9 million in restructuring costs related to the closure of the operating facility in Detroit, Michigan, as described above, resulted in tax losses that were not benefitted and, as a result, not recognized as deferred tax assets. In assessing the realization of deferred tax assets at a point in time, the Company considers whether it is more likely than not that some portion of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of taxable temporary differences; however, forming a conclusion on the realization of deferred tax assets requires judgment when there are recent tax losses.

### **(7) Impact of US tax reforms on deferred tax asset**

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 \$19.3 million.

**NET INCOME**  
**(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

**Three months ended December 31, 2017 to three months ended December 31, 2016 comparison**

	Three months ended December 31, 2017	Three months ended December 31, 2016	\$ Change	% Change
Net Income	\$ 32,366	\$ 30,753	1,613	5.2%
Adjusted Net Income	\$ 43,179	\$ 30,753	12,426	40.4%
Net Earnings per Share				
Basic and Diluted	\$ 0.37	\$ 0.36		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.50	\$ 0.36		

Net Income, before adjustments, for the fourth quarter of 2017 increased by \$1.6 million to \$32.4 million from \$30.8 million for the fourth quarter of 2016. Excluding the unusual and other items recognized during the fourth quarter of 2017 as explained in Table A under "Adjustments to Net Income", Net Income for the fourth quarter of 2017 increased to \$43.2 million or \$0.50 per share, on a basic and diluted basis, from \$30.8 million or \$0.36 per share, on a basic and diluted basis, for the fourth quarter of 2016.

Adjusted Net Income for the fourth quarter of 2017, as compared to the fourth quarter of 2016, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or a subsequent to the fourth quarter of 2016; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.3% for the fourth quarter of 2017 compared to 24.5% for the fourth quarter of 2016).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A expense as previously discussed; and
- a year-over-year increase in depreciation expense as previously discussed.

**Three months ended December 31, 2017 actual to guidance comparison:**

On November 14, 2017, the Company provided the following guidance for the fourth quarter of 2017:

	Guidance	Actual
Production sales (in millions)	\$ 790 - 830	\$ 810
Adjusted Net Earnings per Share		
Basic and Diluted	\$ 0.45 - 0.49	\$ 0.50

For the fourth quarter of 2017, while production sales of \$810 million were within the published sales guidance range, Adjusted Net Earnings per Share of \$0.50 exceeded the published earnings guidance range due generally to better than expected financial performance at certain operating facilities.

**Year ended December 31, 2017 to year ended December 31, 2016 comparison**

	Year ended December 31, 2017		Year ended December 31, 2016		\$ Change	% Change
Net Income	\$	159,543	\$	92,380	67,163	72.7%
Adjusted Net Income	\$	165,519	\$	130,085	35,434	27.2%
Net Earnings per Share						
Basic and Diluted	\$	1.84	\$	1.07		
Adjusted Net Earnings per Share						
Basic	\$	1.91	\$	1.51		
Diluted	\$	1.91	\$	1.50		

Net Income, before adjustments, for the year ended December 31, 2017 increased by \$67.1 million to \$159.5 million from \$92.4 million for the year ended December 31, 2016 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the year ended December 31, 2017 and 2016 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the year ended December 31, 2017 increased to \$165.5 million or \$1.91 per share, on a basic and diluted basis, from \$130.1 million or \$1.51 per share, on a basic basis, and \$1.50 per share, on a diluted basis, for the year ended December 31, 2016.

Adjusted Net Income for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016;
- a net foreign exchange gain of \$1.2 million for the year ended December 31, 2017 compared to a net foreign exchange loss of \$2.2 million for the year ended December 31, 2016;
- a year-over-year decrease in finance expense on the Company's bank debt and equipment loans; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.4% for the year ended December 31, 2017 compared to 24.4% for the year ended December 31, 2016).

These factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities;
- a year-over-year increase in SG&A as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed; and
- an increase in research and development costs due to increased new product and process research and development activity.

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

**Three months ended December 31, 2017 to three months ended December 31, 2016 comparison**

	Three months ended December 31, 2017		Three months ended December 31, 2016		\$ Change	% Change
Additions to PP&E	\$	83,815	\$	112,721	(28,906)	(25.6%)

Additions to PP&E decreased by \$28.9 million to \$83.8 million in the fourth quarter of 2017 from \$112.7 million in the fourth quarter of 2016 due generally to the timing of expenditures. Additions as a percentage of sales decreased year-over-year to 9.5% from 11.4% in the fourth quarter of 2016. The Company continues to make investments in the business in particular at new greenfield operating facilities as these new plants execute on their backlogs of new business.

**Year ended December 31, 2017 to year ended December 31, 2016 comparison**

	Year ended December 31, 2017		Year ended December 31, 2016		\$ Change	% Change
Additions to PP&E	\$	251,920	\$	249,454	2,466	1.0%

Additions to PP&E increased slightly by \$2.5 million year-over-year to \$251.9 million for the year ended December 31, 2017 compared to \$249.5 million for the year ended December 31, 2016. Additions as a percentage of sales increased year-over-year to 6.8% for the year ended December 31, 2017 from 6.3% for the year ended December 31, 2016. While capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in 2017 continued to be for manufacturing equipment for new and replacement programs that recently launched or will be launching over the next 24 months.

**SEGMENT ANALYSIS**

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

**Three months ended December 31, 2017 to three months ended December 31, 2016 comparison**

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended December 31, 2017	Three months ended December 31, 2016	Three months ended December 31, 2017	Three months ended December 31, 2016
North America	\$ 674,852	\$ 805,487	\$ 51,637	\$ 35,759
Europe	163,949	150,983	7,496	9,642
Rest of the World	41,904	38,165	2,508	575
Eliminations	(2,063)	(4,228)	-	-
Adjusted Operating Income	-	-	\$ 61,641	\$ 45,976
Unusual and Other Items*	-	-	5,886	-
Total	\$ 878,642	\$ 990,407	\$ 67,527	\$ 45,976

\* Operating income for the operating segments has been adjusted for unusual and other items. The \$5.9 million of unusual and other items for the fourth quarter of 2017 was recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

**North America**

Adjusted Operating Income in North America increased by \$15.9 million to \$51.6 million for the fourth quarter of 2017 from \$35.8 million for the fourth quarter of 2016 despite lower sales as previously discussed. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2016; partially offset by operational inefficiencies and other costs at certain other facilities.

**Europe**

Adjusted Operating Income in Europe decreased by \$2.1 million to \$7.5 million for the fourth quarter of 2017 from \$9.6 million for the fourth quarter of 2016 due in large part to upfront costs incurred in the Company's German operations in preparation of upcoming new programs and related to new business in the process of being launched; partially offset by incremental margin contribution from a year-over-year increase in sales. As noted previously, the year-over-year increase in sales can be attributed to a \$6.4 million increase in tooling sales, a \$2.5 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2016, and higher overall production volumes in the Company's German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler.

## Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year due in large part to higher year-over-year sales. The increase in sales was due to a \$4.0 million increase in tooling sales and higher year-over-year production sales in the Company's operating facility in Brazil; partially offset by a \$1.1 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2016 and lower year-over-year OEM production volumes on the Ford Mondeo/Taurus platforms in China.

### Year ended December 31, 2017 to year ended December 31, 2016 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
North America	\$ 2,913,786	\$ 3,222,660	\$ 203,676	\$ 165,236
Europe	657,029	636,082	38,388	36,813
Rest of the World	132,067	122,989	(5,257)	(4,342)
Eliminations	(12,383)	(13,324)	-	-
Adjusted Operating Income	-	-	\$ 236,807	\$ 197,707
Unusual and Other Items*	-	-	9,817	(38,263)
Total	\$ 3,690,499	\$ 3,968,407	\$ 246,624	\$ 159,444

\* Operating income for the operating segments has been adjusted for unusual and other items. The \$9.8 million of unusual and other items for the year ended December 31, 2017 was recognized in North America. Of the \$38.3 million of unusual and other items incurred during the year ended December 31, 2016, \$36.5 million was incurred in North America and \$1.8 million in Europe. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

## North America

Adjusted Operating Income in North America increased by \$38.4 million to \$203.7 million for the year ended December 31, 2017 from \$165.2 million for the year ended December 31, 2016. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2016; partially offset by operational inefficiencies and other costs at certain facilities.

## Europe

Adjusted Operating Income in Europe increased by \$1.6 million to \$38.4 million for the year ended December 31, 2017 from \$36.8 million for the year ended December 31, 2016 due to higher year-over-year sales; partially offset by upfront costs incurred in the Company's German operations in preparation of upcoming new programs and related to new business in the process of being launched. The increase in sales can be attributed to higher production volumes in the Company's German operations including the ramp up of new structural components work and the new V8 AMG engine block for Daimler, and an \$8.0 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2017 of approximately \$6.3 million as compared to the comparative period of 2016.

## Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year despite higher year-over-year sales. The decrease in operating results was due to approximately \$5.0 million in litigation costs related to certain employee-related matters in the Company's operating facility in Brazil, and upfront costs incurred in the Company's China operations in preparation of upcoming new programs; partially offset by incremental margin contribution from the higher year-over-year sales. The increase in sales was mainly due to a year-over-year increase in production sales in the Company's operating facility in Brazil and higher year-over-year production sales in China related to GM's CT6 vehicle platform; partially offset by a \$5.1 million decrease in tooling sales and a \$0.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the year ended December 31, 2016.

**SUMMARY OF QUARTERLY RESULTS**  
**(unaudited)**

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	878,642	838,535	972,772	1,000,550	990,407	914,725	1,023,825	1,039,450
Gross Margin	124,042	113,418	128,926	118,215	104,312	99,698	116,222	111,818
Net Income (loss) for the period	32,366	36,022	47,411	43,467	30,630	28,827	(27)	32,531
Net Income (loss) attributable to equity holders of the Company	32,366	36,229	47,346	43,602	30,753	29,098	(42)	32,571
Adjusted Net Income attributable to equity holders of the Company*	43,179	36,263	47,346	38,731	30,753	29,098	37,663	32,571
Basic and Diluted Net Earnings per Share	0.37	0.42	0.55	0.50	0.36	0.34	-	0.38
Adjusted Basic and Diluted Net Earnings per Share*	0.50	0.42	0.55	0.45	0.36	0.34	0.44	0.38

**\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with IFRS. However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Please refer to the Company's previously filed annual and interim MD&A of operating results and financial position for the fiscal years 2017 and 2016 for a full reconciliation of IFRS to non-IFRS measures.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's financial condition remains solid and continues to strengthen, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at December 31, 2017, the Company had total equity attributable to equity holders of the Company of \$958.5 million (December 31, 2016 - \$830.2 million). As at December 31, 2017, the Company's ratio of current assets to current liabilities was 1.28:1 (December 31, 2016 - 1.26:1). The Company's current working capital level of \$226.9 million at December 31, 2017, up from \$198.0 million at December 31, 2016 is due in large part to the timing of cash inflows and outflows with tooling related accounts. Credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset backed financing.

## CASH FLOWS

	Three months ended December 31, 2017	Three months ended December 31, 2016	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 107,094	\$ 87,503	19,591	22.4%
Change in non-cash working capital items	(23,175)	23,108	(46,283)	(200.3%)
Interest paid	83,919	110,611	(26,692)	(24.1%)
Income taxes paid	(5,543)	(7,025)	1,482	(21.1%)
	(12,912)	(9,172)	(3,740)	40.8%
Cash provided by operating activities	65,464	94,414	(28,950)	(30.7%)
Cash used in financing activities	(10,131)	(17,854)	7,723	(43.3%)
Cash used in investing activities	(37,381)	(64,871)	27,490	(42.4%)
Effect of foreign exchange rate changes on cash and cash equivalents	776	(92)	868	(943.5%)
Increase in cash and cash equivalents	\$ 18,728	\$ 11,597	7,131	61.5%

Cash provided by operating activities during the fourth quarter of 2017 was \$65.5 million, compared to cash provided by operating activities of \$94.4 million in the corresponding period of 2016. The components for the fourth quarter of 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$107.1 million;
- non-cash working capital items use of cash of \$23.2 million comprised of an increase in trade and other receivables of \$30.4 million; partially offset by a decrease in inventories of \$5.1 million, a decrease in prepaid expenses and deposits of \$1.9 million, and a combined increase in trade and other payables and provisions of \$0.2 million;
- interest paid (excluding capitalized interest) of \$5.5 million; and
- income taxes paid of \$12.9 million.

Cash used in financing activities during the fourth quarter of 2017 was \$10.1 million, compared to \$17.9 million in the corresponding period in 2016, as a result of repayments on the Company's revolving banking facility and asset backed financing arrangements totalling \$49.5 million, and \$2.6 million in dividends paid; partially offset by proceeds from a new equipment loan in the amount of \$40 million, and \$1.9 million in proceeds from the exercise of employee stock options. The \$17.9 million in cash used in financing activities during the fourth quarter of 2016 was the result of a \$16.0 million net decrease in long-term debt (including repayments on the Company's revolving banking facility and asset backed financing arrangements), and \$2.6 million in dividends paid; partially offset by \$0.7 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the fourth quarter of 2017 was \$37.4 million, compared to \$64.9 million in the corresponding period in 2016. The components for the fourth quarter of 2017 primarily include the following:

- cash additions to PP&E of \$67.1 million;
- capitalized development costs relating to upcoming new program launches of \$3.6 million; partially offset by
- proceeds from the disposal of PP&E of \$2.3 million and proceeds from the sale of land and building of \$31.0 million.

The cash used in investing activities of \$64.9 million in the fourth quarter of 2016 included \$62.0 million in cash additions to PP&E and \$3.0 million in capitalized development costs relating to upcoming new program launches; partially offset by \$0.1 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of \$52.5 million at the beginning of the fourth quarter of 2017, and the activities described above, the cash and cash equivalents balance at December 31, 2017 was \$71.2 million.



	Year ended December 31, 2017	Year ended December 31, 2016	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 406,207	\$ 348,031	58,176	16.7%
Change in non-cash working capital items	(26,876)	(15,986)	(10,890)	68.1%
	379,331	332,045	47,286	14.2%
Interest paid	(20,304)	(22,361)	2,057	(9.2%)
Income taxes paid	(56,166)	(49,967)	(6,199)	12.4%
Cash provided by operating activities	302,861	259,717	43,144	16.6%
Cash provided by (used) in financing activities	(56,915)	11,713	(68,628)	(585.9%)
Cash used in investing activities	(230,620)	(239,096)	8,476	(3.5%)
Effect of foreign exchange rate changes on cash and cash equivalents	(3,298)	(2,068)	(1,230)	59.5%
Increase in cash and cash equivalents	\$ 12,028	\$ 30,266	(18,238)	(60.3%)

Cash provided by operating activities during the year ended December 31, 2017 was \$302.9 million, compared to \$259.7 million in the corresponding period of 2016. The components for the year ended December 31, 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$406.2 million;
- non-cash working capital items use of cash of \$26.9 million comprised of a decrease in trade and other receivables of \$0.1 million, an increase in prepaid expenses and deposits of \$1.3 million and an increase in inventories of \$80.5 million; partially offset by a combined increase in trade and other payables and provisions of \$55.0 million;
- interest paid (excluding capitalized interest) of \$20.3 million; and
- income taxes paid of \$56.2 million.

Cash used in financing activities during the year ended December 31, 2017 was \$56.9 million, compared to cash provided by financing activities of \$11.7 million in the corresponding period in 2016, as a result of repayments on the Company's revolving banking facility and asset backed financing arrangements totalling \$88.6 million, and \$10.4 million in dividends paid; partially offset by proceeds from a new equipment loan of \$40.0 million and \$2.1 million in proceeds from the exercise of employee stock options. The \$11.7 million in cash provided in financing activities during the year ended December 31, 2016 was the result of a \$21.3 million net increase in long-term debt (net of repayments on the Company's revolving banking facility and asset backed financing arrangements) and \$0.8 million in proceeds from the exercise of employee stock options; partially offset by \$10.4 million in dividends paid.

Cash used in investing activities during the year ended December 31, 2017 was \$230.6 million, compared to \$239.1 million in the corresponding period in 2016. The components for the year ended December 31, 2017 primarily include the following:

- cash additions to PP&E of \$259.6 million;
- capitalized development costs relating to upcoming new program launches of \$14.2 million;
- an investment in NanoXplore Inc. (as described in note 7 of the consolidated financial statements for the year ended December 31, 2017) of \$2.5 million; partially offset by
- proceeds from the disposal of PP&E of \$3.6 million, proceeds from the sale of land and building of \$40.9 million, and the upfront recovery of development costs incurred of \$1.2 million.

The cash used in investing activities of \$239.1 million during the year ended December 31, 2016 included \$226.9 million in cash additions to PP&E and \$12.6 million in capitalized development costs relating to upcoming new program launches; partially offset by \$0.4 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of \$59.2 million at the beginning of 2017, and the activities described above, the cash and cash equivalents balance at December 31, 2017 was \$71.2 million.

## Financing

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.

As at December 31, 2017, the Company had drawn \$233.0 million (December 31, 2016 - \$273.0 million) on the Canadian revolving credit line and US\$256.0 million (December 31, 2016 - US\$270.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) decreased by \$79.4 million during 2017 from \$662.2 million at December 31, 2016 to \$582.8 million at December 31, 2017. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.45x at the end of the fourth quarter of 2017, from 1.89x at the end of 2016.

The Company was in compliance with its debt covenants as at December 31, 2017.

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

## Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends are to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter, with the most recent quarterly dividend being paid on January 15, 2018. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In view of the Company's financial performance, and its future outlook and cash needs, the Board has decided to increase the annual dividends by 50% to \$0.18 per share, to be paid in four quarterly installments of \$0.045 per share, commencing with the release of the first quarter results of 2018. In addition, the Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

## Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2017 the amount of off-balance sheet program financing was \$75.2 million (December 31, 2016 - \$65.5 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

## **RISKS AND UNCERTAINTIES**

The following risk factors, as well as the other information contained in this MD&A, the Company's Annual Information Form for the year ended December 31, 2017 ("AIF") (of which the section entitled "Automotive Industry General", describing automotive industry trends and highlights, contained in the AIF is incorporated by reference herein) or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The Company's success is primarily dependent upon the levels of car and light truck production by its customers and the relative amount of content the Company has on their various vehicle programs. OEM production volumes may be impacted by many factors including general economic and political conditions, interest rates, credit availability, energy and fuel prices, international conflicts, labour relations issues, regulatory requirements, trade agreements, infrastructure considerations, legislative changes, and environmental emissions standards and safety issues.

### **North American and Global Economic and Political Conditions**

The automotive industry is global, and is cyclical in the fact that it is sensitive to changes in economic and political conditions, including interest rates, currency issues, energy prices and international or domestic conflicts or political crises.

The Company operates in the midst of a volatile industry, which in the past decade has experienced a significant recession, particularly severe in North America and more recently Europe. Although there has been stabilization or growth in North America, current conditions continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the future. While the Company believes it has sufficient liquidity and a strong balance sheet to deal with present economic conditions, lower sales and production volumes in certain areas may occur. It is unknown at this stage the impact of the views of the U.S. administration on the North American Free Trade Agreement ("NAFTA") and any effects on the automotive industry from any NAFTA changes. (See "*Trade Policies and Resulting Impact (NAFTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"))*" under "*Automotive Industry General*" in the AIF and "*Changes in Law and Governmental Regulation*" .)

Consumer confidence has a significant impact on consumer demand for vehicles, which in turn impacts vehicle production. A significant decline in vehicle production volumes from current levels could have a material adverse effect on profitability.

### **Automotive Industry Risks**

The automotive industry is generally viewed as highly cyclical. It is dependent on, among other factors, consumer spending and general economic conditions in North America and elsewhere. Future sales and production volumes are anticipated to grow modestly or stabilize in North America over the next several years, and have grown in the past several years, but growth rates are uncertain, and volume levels can decrease at any time. In Europe, the automotive industry has significant overcapacity as well as reduced sales and production levels, which can lead to downsizing and restructuring costs, or costs associated with overcapacity. Increased emphasis on the reduction of fuel consumption, fuel emissions and greenhouse gas emissions could also reduce demand for automobiles overall or specific platforms on which the Company has product, especially in the light truck segment. There can be no assurance that North American or European automotive production overall or on specific platforms will not decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of new automobiles overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants. It is unknown at this stage the impact of the views of the U.S. administration on NAFTA and any effects on the automotive industry from any NAFTA changes. See "*Trade Policies and Resulting Impact (NAFTA and the CPTPP)*" in the AIF and "*Changes in Law and Governmental Regulation*".

### **Dependence Upon Key Customers**

Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, reduced sales of automotive platforms of such customers, or shift in market share on vehicles on which we have significant content, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. In addition, a work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers or an extended customer shutdown (scheduled or unscheduled ) could have a significant impact on the Company's revenue and/or profitability. Our largest North American customers typically halt production for approximately two weeks in July and one week in December. These typically seasonal shutdowns could cause fluctuations in the Company's quarterly results.

## Financial Viability of Suppliers

The Company relies on a number of suppliers to supply a wide range of products and components required in connection with the business. Economic conditions, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (fires, hurricanes, earthquakes) can result in many automotive suppliers experiencing varying degrees of financial distress. The continued financial distress or the insolvency or bankruptcy of any such supplier could disrupt the supply of products, materials or components to Martinrea or to customers, potentially causing the temporary shut-down of the Company's or customers' production lines. Martinrea has experienced supply disruptions of varying natures in the past, including in cases where an equipment supplier has gone out of business, or an act of God resulted in the shortage of a key commodity. There is a risk some suppliers may not have adequate capacity to timely accommodate increases in demand for their products which could lead to production disruption for the customer. Any prolonged disruption in the supply of critical components, the inability to re-source production of a critical component from a distressed automotive components sub-supplier, or any temporary shut-down of production lines or the production lines of a customer, could have a material adverse effect on profitability. Additionally, the insolvency, bankruptcy, financial restructuring or force majeure event of any critical suppliers could result in the Company incurring unrecoverable costs related to the financial work-out or resourcing costs of such suppliers and/or increased exposure for product liability, warranty or recall costs relating to the components supplied by such suppliers to the extent such supplier is not able to assume responsibility for such amounts, each of which could have an adverse effect on the Company's profitability. Also see "*Dependence Upon Key Customers*".

## Competition

The markets for fluid management systems, cast aluminum products and fabricated metal products and assemblies for automotive and industrial customers are highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources than the Company. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

## Cost Absorption and Purchase Orders

Given the current trends in the automotive industry, the Company is under continuing pressure to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling in addition to items previously paid for directly by OEMs. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through the piece price of the applicable component. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the product development, design, engineering, prototype and validation costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

## Material Prices

Prices for key raw materials and commodities used in parts production, particularly aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. Martinrea has attempted to mitigate its exposure to price increases of key commodities, particularly steel and aluminum (through participation in steel resale programs or price adjustment mechanisms); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content, by passing commodity price increases to customers or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also impact on production or transportation costs which in turn could affect competitiveness.

## Outsourcing and Insourcing Trends

The Company is dependent on the outsourcing of components, modules and assemblies by OEMs. The extent of OEM outsourcing is influenced by a number of factors, including relative cost, quality and timeliness of production by suppliers as compared to OEMs, capacity utilization, and labour relations among OEMs, their employees and unions. As a result of any favourable terms in collective bargaining agreements which may lower cost structures, OEMs may insource some production which had previously been outsourced, or not outsource production which may otherwise be outsourced at some point. Outsourcing of some assembly is particularly dependent on the degree of unutilized capacity at the OEMs' own assembly facilities, in addition to the foregoing factors. A reduction in

outsourcing by OEMs, or the loss of any material production or assembly programs coupled with the failure to secure alternative programs with sufficient volumes and margins, could have a material adverse effect on profitability.

### **Product Warranty, Recall and Liability Risk**

Automobile manufacturers are increasingly requesting that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

### **Product Development and Technological Change**

The automotive industry is characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices, and delivering lightweighting and other products that will enable it to continue to have content on the cars of the future (including for example, electric and autonomous vehicles). The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's results of operations. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols. There can be no assurance that the Company will be successful in its efforts in these respects.

### **Dependence Upon Key Personnel**

The success of the Company is dependent on the services of a number of the members of its senior management. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. The loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company does not currently maintain key man insurance.

### **Limited Financial Resources/Uncertainty of Future Financing/Banking**

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Additional equity financings may result in substantial dilution to existing shareholders.

### **Acquisitions**

The Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products. The completion of such transactions poses additional risks to the Company's business. The benefit to the Company of previous and future acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products into the Company, and the Company may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). The Company cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Company. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt. Such transactions may involve partners, and the formula for determining contractual sale provisions may be subject to a variety of factors that may not be easily quantified or estimated until the time of sale (such as market conditions and determining fair market value).

### **Potential Rationalization Costs and Turnaround Costs**

The Company has incurred restructuring costs over the past several years. In response to the increasingly competitive automotive industry conditions, it is likely that the Company will continue to rationalize some production facilities. In the course of such rationalization, restructuring costs related to plant closings or alterations, relocations and employee severance costs will be incurred. Such costs could have an adverse effect on short-term profitability. In addition, while the Company's goal is for every plant to be profitable, there is no assurance this will occur, which will likely result in a rationalizing or closing of the plant. Martinrea is working to turn around any financially underperforming divisions, however, there is no guarantee that it will be successful in doing so with respect to some or all such divisions. The continued underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

## Launch and Operational Costs

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years.

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability.

## Potential Volatility of Share Prices

The market price of the Company's common shares has been, and will likely continue to be, subject to significant fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares is low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating results, the gain or loss of significant contracts, announcements of technological or competitive developments by the Company or its competitors, acquisitions or entry into strategic alliances by the Company or its competitors, the gain or loss of a significant customer or strategic relationship, changes in estimates of the Company's financial performance, changes in recommendations from securities analysts regarding the Company, the industry or its customers' industries, litigation involving the Company or its officers and general market or economic conditions.

## Changes in Laws and Governmental Regulations

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to NAFTA, the CPTPP, or the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States such as increased tariffs or investigations relating to anti-dumping. In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs.

## Labour Relations Matters

The Company has a significant number of its employees subject to collective bargaining agreements, as do many of the Company's customers and suppliers. To date, the Company has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes (including labour disputes of the Company's customers and suppliers), whether in the context of potential restructuring or in connection with negotiations undertaken to ensure a division's competitiveness, or otherwise, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations. The Company cannot predict whether and when any labour disruption may arise or how long such disruption could last. A significant labour disruption could lead to a lengthy shutdown of the Company or its customers' or suppliers' facilities or production lines, which could have a material adverse effect on the Company's operations and profitability.

## Litigation and Regulatory Compliance and Investigations

The Company has been and is involved in litigation from time to time and has received, in the past, letters from third parties alleging claims and claims have been made against it including those described under "*Legal Proceedings*" in the AIF. Although litigation claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. There can be no assurance that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements. There can be no assurance that such arrangements will be available on reasonable terms, or at all. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome or determine the amount of any potential losses or the success of any claim or of any law suit referenced under "*Legal Proceedings*" in the AIF and any other claims to which the Company may be subject. In addition, there is no assurance that the Company will be successful in a litigation matter. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations. See "*Legal Proceedings*" in the AIF. The Company's policy is to comply with all applicable laws. However, the Company or its directors and officers may also be subject to regulatory risk in the markets in which it operates (for example, antitrust and competition regulatory authorities, tax authorities, anti-bribery and corruption authorities, cybersecurity risk). Regulatory investigations, if any, can continue for several years, and depending on the jurisdiction and type of proceeding can result in administrative or civil or criminal penalties that could have a material adverse effect on the Company's profitability or operations (even where the Company or any of its officers or directors is innocent, investigations can be expensive to defend). Additionally, the Company could be subject to other consequences including reputational damage, which could have a material adverse effect on the Company.

## **Currency Risk - Hedging**

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the U.S. dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To date, the Company has engaged in some hedging activities to mitigate the risk of identified exchange rate exposures. To the extent the Company may seek to implement more substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

## **Currency Risk – Competitiveness in Certain Jurisdictions**

The appreciation of the Canadian dollar against the U.S. dollar (and other currencies) may negatively affect the competitiveness of the Company's Canadian operations in this respect against the operations in the U.S. and Mexico, as well as other jurisdictions, of competitors and the operations of the Company in those jurisdictions. As a result of a Canadian dollar appreciation the Company may move some existing work to the U.S. or Mexico, or may source work to U.S. or Mexican divisions as opposed to Canadian divisions, in order for the Company to remain or become competitive. Any work shifts may entail significant restructuring and other costs as work is shifted, as Canadian plants are consolidated, downsized or closed, or as plants in the U.S. or Mexico are expanded.

## **Fluctuations in Operating Results**

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers (which tend to include a shutdown period in each of July and December), pricing policies, launch costs, or operational (or equipment or systems) failures, or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns or limitations on spending.

## **Internal Controls Over Financial Reporting and Disclosure Controls and Procedures**

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Company. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of the Company to continue its business as presently constituted. The Company has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected and corrected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, the Company assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. The Company's current system of internal and disclosure controls also places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

## **Environmental Regulation**

The Company is subject to a variety of environmental regulations by the federal, provincial and municipal authorities in Canada, the United States, Mexico, South America, Europe and China that govern, among other things, soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases, into the environment; and health and safety. If the Company fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators or become subject to litigation. Environmental and pollution control laws, regulations and permits, and the enforcement thereof, change frequently, have tended to become more stringent over time and may necessitate substantial capital expenditures or operating costs. Environmental regulation in any one jurisdiction in which the Company operates may impact the business of the Company to the extent that jurisdiction becomes less competitive. In addition to the foregoing, the Company may also incur costs and expenses resulting from environmental compliance, such as any changes to facilities to address physical, health and safety or regulatory constraints, repair or rebuilding facilities impacted by adverse weather events, or research and development activities related to more environmentally efficient operations and processes, as well as other potential costs. (See also "*Financial Viability of Suppliers*" in the AIF.)

Under certain environmental requirements, the Company could be responsible for costs relating to any contamination at the Company's or a predecessor entity's current or former owned or operated properties or third-party waste-disposal sites, even if the Company was not at fault. In addition to potentially significant investigation and cleanup costs, contamination can give rise to third-party claims for fines or penalties, natural resource damages, personal injury or property damage.

The Company's customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility, which may impact the Company's business and operations.

The Company's operations may also be impacted by any environmental policies at any of its customers or suppliers to the extent that it affects production or volumes.

The Company cannot provide assurances that the Company's costs, liabilities and obligations or any resulting impact on its revenues due to customer requirements or changes in supply chain requirements relating to environmental matters (or any issues that may arise as a result of its customers' or suppliers' own environmental compliance, including any environmental compliance or trends that may impact their businesses) will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

### **A Shift Away from Technologies in Which the Company is Investing**

The Company continues to invest in technology and innovation which the Company believes will be critical to its long-term growth. The Company's ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products and/or manufacturing processes on a timely basis will be a significant factor in its ability to remain competitive. If there is a shift away from the use of technologies in which the Company is investing, its costs may not be fully recovered. In addition, the Company may be placed at a competitive disadvantage if other technologies in which the investment is not as great, or the Company's expertise is not as developed, emerge as the industry-leading technologies. This could have a material adverse effect on the Company's profitability and financial condition.

### **Competition with Low Cost Countries**

The competitive environment in the automotive industry has intensified as customers seek to take advantage of low wage costs in China, Korea, Thailand, India, Brazil and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost countries. The loss of any significant production contract to a competitor in low cost countries or significant costs and risks incurred to enter and carry on business in these countries could have an adverse effect on profitability.

### **The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets**

Many of the Company's customers have sought, and will likely continue to seek to take advantage of lower operating costs and/or other advantages in China, India, Brazil, Russia and other growing markets. While the Company continues to expand its manufacturing footprint with a view to taking advantage of manufacturing opportunities in some of these markets, the Company cannot guarantee that it will be able to fully realize such opportunities. The inability to quickly adjust its manufacturing footprint to take advantage of manufacturing opportunities in these markets could harm its ability to compete with other suppliers operating in or from such markets, which could have an adverse effect on its profitability.

### **Risks of conducting business in foreign countries, including China, Brazil and other growing markets**

The Company has or may establish foreign manufacturing, assembly, product development, engineering and research and development operations in foreign countries, including in Europe, China and Brazil. International operations are subject to certain risks inherent in doing business abroad, including:

- political, civil and economic instability;
- corruption risks;
- trade, customs and tax risks;
- currency exchange rates and currency controls;
- limitations on the repatriation of funds;
- insufficient infrastructure;
- restrictions on exports, imports and foreign investment;
- increases in working capital requirements related to long supply chains;
- difficulty in protecting intellectual property rights; and
- different and challenging legal systems.

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability.

### **Potential Tax Exposures**

The Company may incur losses in some countries which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax



exposures arising out of changes in tax laws, tax reassessments or otherwise. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions that are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain value added tax credits claimed. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 21 to the Company's consolidated financial statements for the year ended December 31, 2017). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability.

#### **Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates.**

The Company's effective tax rate varies in each country in which it conducts business. Changes in its mix of earnings between jurisdictions with lower tax rates and those with higher tax rates could have a material adverse effect on the Company's profitability.

#### **Pension Plans and other post employment benefits**

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2017, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2017, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund some amounts in 2018 and beyond. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2017, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2017.

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2017, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2018 and beyond are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post-employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post-employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2017, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2017.

#### **Impairment Charges**

The Company may take, in the future, significant impairment charges, including charges related to long-lived assets. The early termination, loss, renegotiation of the terms of, or delay in the implementation of, any significant production contract could be indicators of impairment. In addition, to the extent that forward-looking assumptions regarding: the impact of turnaround plans on underperforming operations; new business opportunities; program price and cost assumptions on current and future business; the timing and success of new program launches; and forecast production volumes, are not met, any resulting impairment loss could have a material adverse effect on the Company's profitability.

#### **Cybersecurity Threats**

The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective information technology systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's or its customers', or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

## Dividends

The declaration and payment of dividends, including the dividend rate, is subject to the Board's discretion taking into account the Company's cash flow, capital requirements, financial condition and other factors the Board considers relevant. These factors are, in turn, subject to various risks, including the risk factors set out above. While the Company aims to pay a consistent dividend and increase the dividend rate over time, the Company's Board may in certain circumstances determine that it is in the best interests of the Company to reduce or suspend the dividend. In such event, the trading price of the Common Shares of the Company may be materially affected.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 1, 2018, the Company had 86,745,834 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 1, 2018, options to acquire 1,844,450 common shares were outstanding.

## CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

At December 31, 2017, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total
Purchase obligations (i)	412,116	2,007	1,976	31	-	-	416,130
Long-term debt	24,795	11,211	566,296	12,180	39,535	-	654,017
Lease commitments	34,735	32,005	27,139	22,379	18,566	75,365	210,189
Total contractual obligations	471,646	45,223	595,411	34,590	58,101	75,365	1,280,336

- (i) Purchase obligations consist of those related to inventory, services, tooling and fixed assets in the ordinary course of business.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2017, the amount of the off balance sheet program financing was \$75.2 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

## 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 (Loss). These amounts will be recognized in earnings as and when the corresponding Accumulated Other Comprehensive Income (Loss) from the hedged foreign operations is recognized in net earnings.

## Financial Instruments

The Company periodically utilizes certain financial instruments, principally forward currency exchange contracts, to manage the risk associated with fluctuations in currency exchange rates. It is the Company's policy to not utilize financial instruments for trading or speculative purposes. Forward currency exchange contracts are used to reduce the impact of fluctuating exchange rates on the Company's foreign denominated sales and the Company's purchases of materials and equipment. Gains and losses on forward foreign exchange contracts are reflected in the consolidated financial statements in the same period as the hedged item. In the event that a hedged item is sold or cancelled prior to the termination of the related hedging item, any unrealized gain or loss on the hedging item is immediately recognized in income.

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 \$0.1 million and was recorded in trade and other payables (December 31, 2016 - loss of \$0.2 million).

## INVESTMENTS

During the third quarter of 2017, the Company acquired 5.5 million common shares in NanoXplore Inc., a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of \$2.5 million through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2.75 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 \$2.5 million was allocated to the common shares and warrants acquired based on their relative fair values at the time of issuance resulting in \$2.2 million being initially allocated to the common shares and \$0.3 million to the warrants.

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 \$4.0 million resulting in an unrealized gain of \$3.7 million 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 (loss). As at December 31, 2017, the common shares had a fair value of \$11.3 million resulting in an unrealized gain of \$9.1 million (\$8.0 million net of tax) for the year ended December 31, 2017.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company’s disclosure controls and procedures was conducted as of December 31, 2017, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) by and under the supervision of the Company’s management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company’s management team used COSO to design the Company’s internal controls over financial reporting.

The CEO and CFO have caused an evaluation of the effectiveness of the Company’s internal controls over financial reporting as of December 31, 2017. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company’s business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity’s objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization’s disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in the Company’s internal controls over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company’s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The discussion below describes the Company’s significant policies and procedures.

The Company’s management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions. In making and evaluating its estimates, management also considers economic conditions generally and in the automotive industry in particular, which have more recently been very different from historical patterns, as well as industry trends and the risks and uncertainties involved in its business that could materially affect the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. See “Automotive Industry Highlights and Trends” in the Company’s AIF and “Risks and Uncertainties” above.

Management believes that the accounting estimates discussed below are critical to the Company’s business operations and an understanding of its results of operations or may involve additional management judgment due to the sensitivity of the methods and

assumptions necessary in determining the related asset, liability, revenue and expense amounts. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

### **Revenue Recognition on Separately Priced Tooling Contracts**

Revenue from tooling contracts is recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold. This generally corresponds to when the tool is inspected and accepted by the Customer, which is typically defined as the PPAP (production part approval process or customer acceptance) date. Under tooling contracts, the related sale could be paid in full upon completion of the contract, or in installments.

Revenue and cost of sales from tooling contracts are presented on a gross basis in the consolidated statements of operations.

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.

### **Intangible Assets**

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

Customer contracts and relationships 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.

Development costs are capitalized when the Company can demonstrate that:

- it has the intention and the technical and financial resources to complete the development;
- the intangible asset will generate future economic benefits; and
- the cost of the intangible asset can be measured reliably.

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.

Research costs, including costs of market research and new product prototyping during the marketing stage, are expensed in the period in which they are incurred.

### **Impairment of 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 have indefinite useful lives or 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. 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 (CGUs).

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 other 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.

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; and (ii) any resulting impairment loss could have a material impact on consolidated net income and on the amount of assets reported on the Company's consolidated balance sheet.

### **Income Tax Estimates**

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. 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.

The Company is required to estimate the tax basis of assets and liabilities. The assessment for the recognition of a deferred tax asset requires significant judgment. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

At December 31, 2017, the Company had recorded a net deferred income tax asset in respect of pensions and other post-retirement benefits, loss carry-forwards and other temporary differences of \$59.8 million. Deferred tax assets in respect of loss carry-forwards relate to legal entities in Canada, the United States, Mexico and Europe. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that 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. The factors used to assess the probability of realization are the Company's forecast of future taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred tax assets in order to avoid the potential loss of benefits.

## **Employee Future Benefits**

The Company provides pensions and other post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Company's annual consolidated financial statements for the year ended December 31, 2017 the most significant of which are the discount rate, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses which are recognized in other comprehensive income as they arise. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

## **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 to participate, 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.

## **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' interest. 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.

## **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.

## 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.

### *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.



## **Selected Annual Information**

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2017, December 31, 2016 and December 31, 2015.

	2017	2016	2015
Sales	\$ 3,690,499	\$ 3,968,407	\$ 3,866,771
Gross Margin	484,601	432,050	402,232
Operating Income	246,624	159,444	161,761
Net Income for the period	159,266	91,961	107,173
Net Income Attributable to Equity Holders of the Company	\$ 159,543	\$ 92,380	\$ 107,030
Net Earnings per Share - Basic	\$ 1.84	\$ 1.07	\$ 1.25
Net Earnings per Share - Diluted	\$ 1.84	\$ 1.07	\$ 1.24
<b><u>Non-IFRS Measures*</u></b>			
Adjusted Operating Income	\$ 236,807	\$ 197,707	\$ 178,870
% of Sales	6.4%	5.0%	4.6%
Adjusted EBITDA	401,493	350,357	317,750
% of Sales	10.9%	8.8%	8.2%
Adjusted Net Income Attributable to Equity Holders of the Company	\$ 165,519	\$ 130,085	\$ 118,788
Adjusted Net Earnings per Share - Basic	\$ 1.91	\$ 1.51	\$ 1.38
Adjusted Net Earnings per Share - Diluted	\$ 1.91	\$ 1.50	\$ 1.38
Total Assets	\$ 2,541,173	\$ 2,468,494	\$ 2,463,928
Cash and Cash Equivalents	\$ 71,193	\$ 59,165	\$ 28,899
Long-term Debt	\$ 654,017	\$ 721,403	\$ 717,012
Dividends Declared	\$ 10,388	\$ 10,366	\$ 10,336

The year-over-year trends in the selected information above have been discussed previously in this MD&A, as well as the MD&A from December 31, 2016, including the unusual items in Table B under "Adjustments to Net Income".

### **\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Refer to page 2 and 3 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2017 and 2016 and the Company's MD&A for the year ended December 31, 2016, as previously filed and available at [www.sedar.com](http://www.sedar.com), for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2015.

### **FORWARD-LOOKING INFORMATION**

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to the growth of the Company and pursuit of its strategies, the ramping up and launching of new programs, investments in its business, the opportunity to increase sales, the future amount and type of restructuring expenses to be expensed (including the expectation as to no further restructuring costs from the Honsel acquisition), the financing of future capital expenditures, the Company's views of the likelihood of tooling and component part supplier default, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity and ability to deal with present economic conditions, growth of future sales or production volumes and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-

looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2017 and other public filings which can be found at [www.sedar.com](http://www.sedar.com):

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and in-sourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits
- impairment charges;
- cyber security threats; and
- dividends.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.