MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the Year ended December 31, 2018

The following management discussion and analysis ("MD&A") was prepared as of February 28, 2019 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 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, 2018, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs approximately 15,000 skilled and motivated people in 45 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea's vision is to make lives better by being the best supplier we can be in the products we make and the services we provide. The Company's mission is to make people's lives better by: delivering outstanding quality products and services to our customers; providing meaningful opportunity, job satisfaction, and job security to our people through competitiveness and prudent growth; being positive contributors to our communities; and providing superior long-term investment returns to our stakeholders.

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, 2018 and 2017. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2018 for a detailed account of the Company's performance for the periods presented in the tables below.

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Sales	$ 3,662,900	$ 3,690,499	(27,599)	(0.7%)
Gross Margin	556,161	484,601	71,560	14.8%
Operating Income	276,472	246,624	29,848	12.1%
Net Income for the period	185,883	159,266	26,617	16.7%
Net Income Attributable to Equity Holders of the Company	$ 185,883	$ 159,543	26,340	16.5%
Net Earnings per Share - Basic	$ 2.15	$ 1.84	0.31	16.8%
Net Earnings per Share - Diluted	$ 2.14	$ 1.84	0.30	16.3%
Non-IFRS Measures*				
Adjusted Operating Income	$ 283,981	$ 236,807	47,174	19.9%
% of Sales	*7.8%*	*6.4%*		
Adjusted EBITDA	461,223	401,493	59,730	14.9%
% of Sales	*12.6%*	*10.9%*		
Adjusted Net Income Attributable to Equity Holders of the Company	193,166	165,519	27,647	16.7%
Adjusted Net Earnings per Share - Basic	$ 2.23	$ 1.91	0.32	16.8%
Adjusted Net Earnings per Share - Diluted	$ 2.22	$ 1.91	0.31	16.2%

The following table sets out a detailed account of the Company's performance for the fourth quarters of 2018 and 2017 (unaudited).

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Sales	$	926,154	$	878,642	47,512	5.4%
Cost of sales (excluding depreciation)		(751,605)		(716,927)	(34,678)	4.8%
Depreciation of property, plant and equipment (production)		(39,982)		(37,673)	(2,309)	6.1%
Gross Margin		134,567		124,042	10,525	8.5%
Research and development costs		(7,189)		(6,600)	(589)	8.9%
Selling, general and administrative		(58,363)		(52,531)	(5,832)	11.1%
Depreciation of property, plant and equipment (non-production)		(2,971)		(2,596)	(375)	14.4%
Amortization of customer contracts and relationships		(535)		(530)	(5)	0.9%
Loss on disposal of property, plant and equipment		(93)		(144)	51	(35.4%)
Impairment of assets		(5,436)		(7,488)	2,052	(27.4%)
Restructuring costs		(2,073)		-	(2,073)	(100.0%)
Gain on disposal of land and building		-		13,374	(13,374)	(100.0%)
Operating Income	$	57,907	$	67,527	(9,620)	(14.2%)
Finance expense		(7,013)		(5,735)	(1,278)	22.3%
Other finance income (expense)		(389)		2,681	(3,070)	(114.5%)
Income before taxes	$	50,505	$	64,473	(13,968)	(21.7%)
Income tax expense		(12,689)		(32,107)	19,418	(60.5%)
Net Income Attributable to Equity Holders of the Company	$	37,816	$	32,366	5,450	16.8%
Net Earnings per Share - Basic and Diluted	$	0.44	$	0.37	0.07	18.9%
Non-IFRS Measures*						
Adjusted Operating Income	$	65,416	$	61,641	3,775	6.1%
% of Sales		7.1%		7.0%		
Adjusted EBITDA		111,785		105,830	5,955	5.6%
% of Sales		12.1%		12.0%		
Adjusted Net Income Attributable to Equity Holders of the Company		43,840		43,179	661	1.5%
Adjusted Net Earnings per Share - Basic and Diluted	$	0.51	$	0.50	0.01	2.0%

***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, 2018	Three months ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$ 37,816	$ 32,366
Unusual and Other Items (after-tax)*	6,024	10,813
Adjusted Net Income Attributable to Equity Holders of the Company	$ 43,840	$ 43,179

	Year ended December 31, 2018	Year ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$ 185,883	$ 159,543
Unusual and Other Items (after-tax)*	7,283	5,976
Adjusted Net Income Attributable to Equity Holders of the Company	$ 193,166	$ 165,519

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

	Three months ended December 31, 2018	Three months ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$ 37,816	$ 32,366
Income tax expense	12,689	32,107
Other finance income - excluding Unusual and Other Items*	(59)	(359)
Finance expense	7,013	5,735
Unusual and Other Items (before-tax)*	7,957	(8,208)
Adjusted Operating Income	$ 65,416	$ 61,641
Depreciation of property, plant and equipment	42,953	40,269
Amortization of intangible assets	3,323	3,776
Loss on disposal of property, plant and equipment	93	144
Adjusted EBITDA	$ 111,785	$ 105,830

	Year ended December 31, 2018	Year ended December 31, 2017
Net Income Attributable to Equity Holders of the Company	$ 185,883	$ 159,543
Non-controlling interest	-	(277)
Income tax expense	60,943	69,970
Other finance expense (income) - excluding Unusual and Other Items*	401	(1,442)
Finance expense	27,358	22,527
Unusual and Other Items (before-tax)*	9,396	(13,514)
Adjusted Operating Income	$ 283,981	$ 236,807
Depreciation of property, plant and equipment	163,298	149,670
Amortization of intangible assets	13,482	15,399
Loss (gain) on disposal of property, plant and equipment	462	(383)
Adjusted EBITDA	$ 461,223	$ 401,493

**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.

SALES

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
North America	$ 735,876	$ 674,852	61,024	9.0%
Europe	167,533	163,949	3,584	2.2%
Rest of the World	27,571	41,904	(14,333)	(34.2%)
Eliminations	(4,826)	(2,063)	(2,763)	(133.9%)
Total Sales	$ 926,154	$ 878,642	47,512	5.4%

The Company's consolidated sales for the fourth quarter of 2018 increased by $47.6 million or 5.4% to $926.2 million as compared to $878.6 million for the fourth quarter of 2017. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a decrease in the Rest of the World.

Sales for the fourth quarter of 2018 in the Company's North America operating segment increased by $61.0 million or 9.0% to $735.9 million from $674.9 million for the fourth quarter of 2017. The increase was due to the launch of new programs during or subsequent to the fourth quarter of 2017, including the next generation GM Silverado/Sierra and RAM pick-up trucks, and the new Chevrolet Blazer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the fourth quarter of 2018 of approximately $23.4 million as compared to the fourth quarter of 2017; and an increase in tooling sales of $18.0 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes on certain light-vehicle platforms including the Chevrolet Malibu, Ford Escape and Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the fourth quarter of 2017.

Sales for the fourth quarter of 2018 in the Company's Europe operating segment increased by $3.6 million or 2.2% to $167.5 million from $164.0 million for the fourth quarter of 2017. The increase can be attributed to the launch of new programs during or subsequent to the fourth quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.7 million increase in tooling sales; and a $2.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2017. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms.

Sales for the fourth quarter of 2018 in the Company's Rest of the World operating segment decreased by $14.3 million or 34.2% to $27.6 million from $41.9 million in the fourth quarter of 2017. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; a $6.3 million decrease in tooling sales; and a $1.8 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2017. These negative factors were partially offset by the launch of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018.

Overall tooling sales increased by $16.4 million to $85.2 million for the fourth quarter of 2018 from $68.8 million for the fourth quarter of 2017.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
North America	$ 2,827,527	$ 2,913,786	(86,259)	(3.0%)
Europe	713,861	657,029	56,832	8.6%
Rest of the World	135,322	132,067	3,255	2.5%
Eliminations	(13,810)	(12,383)	(1,427)	11.5%
Total Sales	$ 3,662,900	$ 3,690,499	(27,599)	(0.7%)

The Company's consolidated sales for the year ended December 31, 2018 decreased by $27.6 million or 0.7% to $3,662.9 million as compared to $3,690.5 million for the year ended December 31, 2017. The total decrease in sales was driven by a decrease in the North America operating segment, partially offset by year-over-year increases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2018 in the Company's North America operating segment decreased by $86.3 million or 3.0% to $2,827.5 million from $2,913.8 million for the year ended December 31, 2017. The decrease was due to lower year-over-year production volumes on certain light-vehicle platforms including the Ford Escape, Ford Fusion, Chevrolet Malibu, Chrysler 300/Challenger/Charger, and programs that ended production during or subsequent to the year ended December 31, 2017 such as the previous version of the GM Equinox/Terrain; and 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, 2018 of approximately $21.1 million as compared to the corresponding period of 2017. These negative factors were partially offset by the launch of new programs during or subsequent to the year ended December 31, 2017, including the next generation GM Equinox/Terrain, GM Silverado/Sierra and RAM pick-up trucks, and the new Chevrolet Blazer; and an increase in tooling sales of $39.7 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the year ended December 31, 2018 in the Company's Europe operating segment increased by $56.9 million or 8.6% to $713.9 million from $657.0 million for the year ended December 31, 2017. The increase can be attributed to the launch of new programs during

or subsequent to the year ended December 31, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2018 of approximately $30.1 million as compared to the corresponding period of 2017; and a $13.9 million increase in tooling sales. These factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms and the Ford Mondeo in Europe.

Sales for the year ended December 31, 2018 in the Company's Rest of the World operating segment increased by $3.2 million or 2.5% to $135.3 million from $132.1 million for the year ended December 31, 2017. The increase was due to the launch of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018; higher year-over-year production sales in the Company's operating facility in Brazil; and a $4.7 million increase in tooling sales. These negative factors were partially offset by lower year-over-year production volumes on the Ford Mondeo platform in China, and a $5.3 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to corresponding period of 2017.

Overall tooling sales increased by $58.3 million to $269.2 million for the year ended December 31, 2018 from $210.9 million for the year ended December 31, 2017.

GROSS MARGIN

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Gross margin	$ 134,567	$ 124,042	10,525	8.5%
% of Sales	14.5%	14.1%		

The gross margin percentage for the fourth quarter of 2018 of 14.5% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the fourth quarter of 2017 of 14.1%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, higher tariffs on steel, and an increase in tooling sales which typically earn low margins for the Company.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Gross margin	$ 556,161	$ 484,601	71,560	14.8%
% of Sales	15.2%	13.1%		

The gross margin percentage for the year ended December 31, 2018 of 15.2% increased as a percentage of sales by 2.1% as compared to the gross margin percentage for the year ended December 31, 2017 of 13.1%. Consistent with the year-over-year increase in the fourth quarter of 2018 as explained above, the increase in gross margin for the year ended December 31, 2018, as a percentage of sales, was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2017.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, higher tariffs on steel, and an increase in tooling sales which typically earn low margins for the Company.

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

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Selling, general & administrative	$	58,363	$	52,531	5,832	11.1%
% of Sales		6.3%		6.0%		

SG&A expense for the fourth quarter of 2018 increased by $5.8 million to $58.4 million as compared to $52.5 million for the fourth quarter of 2017. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, an increase in outbound freight costs, 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, 2018 to year ended December 31, 2017 comparison

		Year ended December 31, 2018		Year ended December 31, 2017	$ Change	% Change
Selling, general & administrative	$	232,313	$	211,533	20,780	9.8%
% of Sales		6.3%		5.7%		

SG&A expense for the year ended December 31, 2018 increased by $20.8 million to $232.3 million as compared to $211.5 million for the year ended December 31, 2017. Excluding the unusual and other item 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 year ended December 31, 2018 increased by $22.5 million to $232.3 from $209.8 million for the comparative period of 2017. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work, a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives, higher year-over-year incentive compensation based on the performance of the business, an increase in outbound freight costs, and higher year-over-year leasing costs as a result of the sale-leaseback transactions completed in 2017; partially offset by lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil.

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

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

		Three months ended December 31, 2018		Three months ended December 31, 2017	$ Change	% Change
Depreciation of PP&E (production)	$	39,982	$	37,673	2,309	6.1%
Depreciation of PP&E (non-production)		2,971		2,596	375	14.4%
Amortization of customer contracts and relationships		535		530	5	0.9%
Amortization of development costs		2,788		3,246	(458)	(14.1%)
Total depreciation and amortization	$	46,276	$	44,045	2,231	5.1%

Total depreciation and amortization expense for the fourth quarter of 2018 increased by $2.3 million to $46.3 million as compared to $44.0 million for the fourth quarter of 2017. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base connected to both new and replacement business that commenced during or subsequent to the fourth quarter of 2017.

A significant portion of the Company's recent investments relates to various new and replacement programs that commenced during or subsequent to the fourth quarter of 2017 and new and replacement programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Despite the year-over-year increase, depreciation of PP&E (production) expense as a percentage of sales for the fourth quarter of 2018 remained consistent year-over-year at 4.3% due to higher year-over-year sales as previously discussed.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Depreciation of PP&E (production)	$ 152,597	$ 140,018	12,579	9.0%
Depreciation of PP&E (non-production)	10,701	9,652	1,049	10.9%
Amortization of customer contracts and relationships	2,140	2,162	(22)	(1.0%)
Amortization of development costs	11,342	13,237	(1,895)	(14.3%)
Total depreciation and amortization	$ 176,780	$ 165,069	11,711	7.1%

Total depreciation and amortization expense for the year ended December 31, 2018 increased by $11.7 million to $176.8 million as compared to $165.1 million for the year ended December 31, 2017. Consistent with the year-over-year increase in the fourth quarter of 2018 as explained above, the increase in total depreciation and amortization expense for the year ended December 31, 2018 was primarily due to an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the year ended December 31, 2017.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 4.2% for the year ended December 31, 2018 from 3.8% for the year ended December 31, 2017 due to lower year-over-year sales as previously discussed, and recent investments put into production.

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

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

TABLE A

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	For the three months ended December 31, 2018 (a)	For the three months ended December 31, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$37,816**	**$32,366**	**$5,450**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (1)	448	(2,322)	2,770
Impairment of assets (2)	5,436	7,488	(2,052)
Restructuring costs (3)	2,073	-	2,073
Gain on sale of land and building (4)	-	(13,374)	13,374
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$7,957**	**($8,208)**	**$16,165**
Tax impact of above items	(1,933)	(292)	(1,641)
Impact of US tax reforms on deferred tax asset (6)	-	19,313	(19,313)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$6,024**	**$10,813**	**($4,789)**
ADJUSTED NET INCOME (A + B)	**$43,840**	**$43,179**	**$661**
Number of Shares Outstanding – Basic (‘000)	85,829	86,593	
Adjusted Basic Net Earnings Per Share	$0.51	$0.50	
Number of Shares Outstanding – Diluted (‘000)	86,032	87,101	
Adjusted Diluted Net Earnings Per Share	$0.51	$0.50	

TABLE B

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	For the year ended December 31, 2018 (a)	For the year ended December 31, 2017 (b)	(a)-(b) Change
NET INCOME (A)	**$185,883**	**$159,543**	**$26,340**
Add Back - Unusual and Other Items:			
Unrealized loss (gain) on derivative instruments (1)	1,887	(3,697)	5,584
Impairment of assets (2)	5,436	7,488	(2,052)
Restructuring costs (3)	2,073	-	2,073
Gain on sale of land and building (4)	-	(19,072)	19,072
Executive separation agreement (5)	-	1,767	(1,767)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$9,396**	**($13,514)**	**$22,910**
Tax impact of above items	(2,113)	177	(2,290)
Impact of US tax reforms on deferred tax asset (6)	-	19,313	(19,313)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	**$7,283**	**$5,976**	**$1,307**
ADJUSTED NET INCOME (A + B)	**$193,166**	**$165,519**	**$27,647**
Number of Shares Outstanding – Basic ('000)	86,549	86,527	
Adjusted Basic Net Earnings Per Share	$2.23	$1.91	
Number of Shares Outstanding – Diluted ('000)	86,988	86,779	
Adjusted Diluted Net Earnings Per Share	$2.22	$1.91	

(1) Unrealized loss (gain) on derivative instruments

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering (the investment is further described in note 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 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period with the change in fair value recorded through profit or loss.

As at December 31, 2018, the warrants had a fair value of $2.2 million. Based on the fair value of the warrants as at December 31, 2018, an unrealized loss of $1.9 million was recognized for the year ended December 31, 2018, of which $0.4 million was recognized in the fourth quarter in other finance income. This unrealized loss has been added back for Adjusted Net Income purposes.

As at December 31, 2017, the warrants had a fair value of $4.0 million. Based on the fair value of the warrants of December 31, 2017, an unrealized gain of $3.7 million was recognized for the year ended December 31, 2017, of which $2.3 million was recognized in the fourth quarter in other finance income. This unrealized gain has been added back for Adjusted Net Income purposes.

(2) Impairment of assets

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it will be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant, equipment totaling $5.4 million related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company will be forced to close because the operation is entirely dependent on GM's facility in Oshawa. The impairment charge was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

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.

(3) Restructuring costs

Additions to the restructuring accrual during 2018 totaled $2.1 million and represent expected employee-related severance payouts and lease termination costs resulting from the planned closure of the facility in Ajax, Ontario, as described above.

(4) 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.

(5) 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.

(6) 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, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Net Income	$ 37,816	$ 32,366	5,450	16.8%
Adjusted Net Income	$ 43,840	$ 43,179	661	1.5%
Net Earnings per Share				
Basic and Diluted	$ 0.44	$ 0.37		
Adjusted Net Earnings per Share				
Basic and Diluted	$ 0.51	$ 0.50		

Net income, before adjustments, for the fourth quarter of 2018 increased by $5.4 million to $37.8 million from $32.4 million for the fourth quarter of 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the three months ended December 31, 2018 and 2017 as explained in Table A under "Adjustments to Net Income". Excluding the unusual and other items recognized during the fourth quarter of 2018, as explained in Table A under "Adjustments to Net Income", net income for the fourth quarter of 2018 increased to $43.8 million or $0.51 per share, on a basic and diluted basis, from $43.2 million or $0.50 per share, on a basic and diluted basis, for the fourth quarter of 2017.

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

- higher gross profit on increased year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates;
- a net unrealized foreign exchange loss of $0.1 million for the fourth quarter of 2018 compared to a net unrealized foreign exchange gain of $0.3 million for the fourth quarter of 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (25.0% for the fourth quarter of 2018 compared to 23.3% for the fourth quarter of 2017).

Three months ended December 31, 2018 actual to guidance comparison:

On November 8, 2018, the Company provided the following guidance for the fourth quarter of 2018:

	Guidance	Actual
Production sales (in millions)	$ 820 - 860	$ 841
Adjusted Net Earnings per Share		
Basic and Diluted	$ 0.49 - 0.53	$ 0.51

For the fourth quarter of 2018, production sales of $841 million and Adjusted Net Earnings per Share of $0.51 were within the published guidance ranges provided.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Net Income	$ 185,883	$ 159,543	26,340	16.5%
Adjusted Net Income	$ 193,166	$ 165,519	27,647	16.7%
Net Earnings per Share				
Basic	$ 2.15	$ 1.84		
Diluted	$ 2.14	$ 1.84		
Adjusted Net Earnings per Share				
Basic	$ 2.23	$ 1.91		
Diluted	$ 2.22	$ 1.91		

Net Income, before adjustments, for the year ended December 31, 2018 increased by $26.3 million to $185.8 million from $159.5 million for the year ended December 31, 2017 largely as a result of the increase in the Company's gross margin, as previously discussed, and the impact of the unusual and other items incurred during the years ended December 31, 2018 and 2017 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the year ended December 31, 2018 increased to $193.2 million or $2.23 per share, on a basic basis, and $2.22 per share on a diluted basis, from $165.5 million or $1.91 per share, on a basic and diluted basis, for the year ended December 31, 2017.

Adjusted Net Income for the year ended December 31, 2018, as compared to the year ended December 31, 2017, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2017.

These positive factors were partially offset by the following:

- operational inefficiencies and other costs at certain other facilities including higher tariffs on steel;
- a year-over-year increase in SG&A as previously discussed;
- a year-over-year increase in depreciation expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates;
- a net unrealized foreign exchange loss of $0.8 million for the year ended December 31, 2018 compared to a net unrealized foreign exchange gain of $1.2 million for the year ended December 31, 2017; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.6% for the year ended December 31, 2018 compared to 23.4% for the year ended December 31, 2017).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	Three months ended December 31, 2018	Three months ended December 31, 2017	$ Change	% Change
Additions to PP&E	$ 108,011	$ 83,815	24,196	28.9%

Additions to PP&E increased by $24.2 million year-over-year to $108.0 million or 11.7% of sales in the fourth quarter of 2018 from $83.8 million or 9.5% of sales in the fourth quarter of 2017 due in large part to the timing of expenditures and new incremental investment in various sales and margin growth projects. The Company continues to make investments in the business including both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Additions to PP&E	$ 290,513	$ 251,920	38,593	15.3%

Additions to PP&E increased by $38.6 million year-over-year to $290.5 million or 7.9% of sales for the year ended December 31, 2018 compared to $251.9 million or 6.8% of sales for the year ended December 31, 2017 due generally to new incremental investment in various sales and margin growth projects. As noted above, the Company continues to make investments in the business, including in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

SEGMENT ANALYSIS

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

Three months ended December 31, 2018 to three months ended December 31, 2017 comparison

	SALES		OPERATING INCOME (LOSS)	
	Three months ended December 31, 2018	Three months ended December 31, 2017	Three months ended December 31, 2018	Three months ended December 31, 2017
North America	$ 735,876	$ 674,852	$ 55,762	$ 51,637
Europe	167,533	163,949	10,044	7,496
Rest of the World	27,571	41,904	(390)	2,508
Eliminations	(4,826)	(2,063)	-	-
Adjusted Operating Income	-	-	$ 65,416	$ 61,641
Unusual and Other Items*	-	-	(7,509)	5,886
Total	$ 926,154	$ 878,642	$ 57,907	$ 67,527

** Operating income for the operating segments has been adjusted for unusual and other items. The $7.5 million of unusual and other items for the fourth quarter of 2018 and the $5.9 million of unusual and other items for the fourth quarter of 2017 were 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 $4.2 million to $55.8 million or 7.6% of sales for the fourth quarter of 2018 from $51.6 million or 7.7% of sales for the fourth quarter of 2017 due generally to a $61.0 million year-over-year increase in sales as previously explained. 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 2017; partially offset by operational inefficiencies and other costs at certain other facilities, including higher SG&A expenses, as previously explained, upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe increased by $2.5 million to $10.0 million or 6.0% of sales for the fourth quarter of 2018 from $7.5 million or 4.6% of sales for the fourth quarter of 2017 due to incremental margin contribution from a $3.6 million year-over-year increase in sales, and productivity and efficiency improvements at certain operating facilities, including lower upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched; partially offset by general sales mix including lower year-over-year production volumes on certain platforms. As noted previously, the year-over-year increase in sales can be attributed to the launch of new programs during or subsequent to the fourth quarter of 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; a $4.7 million increase in tooling sales; and a $2.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared

to the fourth quarter of 2017. These positive factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms.

Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year to an operating loss of $0.4 million for the fourth quarter of 2018 from operating income of $2.5 million for the fourth quarter of 2017 due mainly to lower margin contribution from a $14.3 million year-over-year decrease in sales, driven in large part by lower production volumes on the Ford Mondeo platform in China.

Year ended December 31, 2018 to year ended December 31, 2017 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
North America	$ 2,827,527	$ 2,913,786	$ 236,626	$ 203,676
Europe	713,861	657,029	46,790	38,388
Rest of the World	135,322	132,067	565	(5,257)
Eliminations	(13,810)	(12,383)	-	-
Adjusted Operating Income	-	-	$ 283,981	$ 236,807
Unusual and Other Items*	-	-	(7,509)	9,817
Total	$ 3,662,900	$ 3,690,499	$ 276,472	$ 246,624

**Operating income for the operating segments has been adjusted for unusual and other items. The $7.5 million of unusual and other items incurred during the year ended December 31, 2018 and the $9.8 million benefit realized during the year ended December 31, 2017 were 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 $32.9 million to $236.6 million or 8.4% of sales for the year ended December 31, 2018 from $203.7 million or 7.0% of sales for the year ended December 31, 2017 despite lower sales as previously explained. 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, 2017; partially offset by operational inefficiencies and other costs at certain other facilities including higher SG&A expenses, as previously explained, upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and higher tariffs on steel.

Europe

Adjusted Operating Income in Europe increased by $8.4 million to $46.8 million or 6.6% of sales for the year ended December 31, 2018 from $38.4 million or 5.8% for the year ended December 31, 2017 due to incremental margin contribution from a $56.8 million year-over-year increase in sales, partially offset by operational inefficiencies and other costs at certain other facilities, including upfront costs incurred in preparation of upcoming new programs and related new business in the process of being launched, and general sales mix including lower year-over-year production volumes on certain platforms. As noted previously the year-over-year increase in sales can be attributed to the launch of new programs during or subsequent to the year ended December 31, 2017, including a 2.0L aluminum engine block for Ford and the ramp up of new aluminum structural components work and the new V8 AMG engine block for Daimler; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2018 of approximately $30.1 million as compared to the corresponding period of 2017; and a $13.9 million increase in tooling sales. These factors were partially offset by lower year-over-year production volumes on certain Jaguar Land Rover platforms and the Ford Mondeo in Europe.

Rest of the World

The operating results for the Rest of the World operating segment increased year-over-year to operating income of $0.6 million for the year ended December 31, 2018 from an operating loss of $5.2 million for the year ended December 31, 2017 on slightly higher year-over-year sales as previously explained and lower litigation costs related to certain employee related matters in the Company's operating facility in Brazil; partially offset by upfront costs incurred in the Company's China operations in preparation of upcoming new programs and related to new business in the process of being launched.

SUMMARY OF QUARTERLY RESULTS (unaudited)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	926,154	851,136	921,710	963,900	878,642	838,535	972,772	1,000,550
Gross Margin	134,567	127,130	150,035	144,429	124,042	113,418	128,926	118,215
Net Income for the period	37,816	36,381	55,727	55,959	32,366	36,022	47,411	43,467
Net Income attributable to equity holders of the Company	37,816	36,381	55,727	55,959	32,366	36,229	47,346	43,602
Adjusted Net Income attributable to equity holders of the Company *	43,840	37,169	55,527	56,630	43,179	36,263	47,346	38,731
Basic Net Earnings per Share	0.44	0.42	0.64	0.65	0.37	0.42	0.55	0.50
Diluted Net Earnings per Share	0.44	0.42	0.64	0.64	0.37	0.42	0.55	0.50
Adjusted Basic and Diluted Net Earnings per Share *	0.51	0.43	0.64	0.65	0.50	0.42	0.55	0.45

***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 2018 and 2017 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, 2018, the Company had total equity of $1,151.5 million (December 31, 2017 - $958.5 million). As at December 31, 2018, the Company's ratio of current assets to current liabilities was 1.35:1 (December 31, 2017 - 1.3:1). The Company's current working capital level of $312.6 million at December 31, 2018 is up from $226.9 million at December 31, 2017 due in large part to the timing of cash inflows and outflows in relation to 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, 2018	Three months ended December 31, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 110,781	$ 107,094	3,687	3.4%
Change in non-cash working capital items	(6,232)	(23,175)	16,943	(73.1%)
	104,549	83,919	20,630	24.6%
Interest paid	(8,546)	(5,543)	(3,003)	54.2%
Income taxes paid	(17,450)	(12,912)	(4,538)	35.1%
Cash provided by operating activities	78,553	65,464	13,089	20.0%
Cash used in financing activities	(956)	(10,131)	9,175	(90.6%)
Cash used in investing activities	(91,748)	(37,381)	(54,367)	145.4%
Effect of foreign exchange rate changes on cash and cash equivalents	619	776	(157)	(20.4%)
Increase (decrease) in cash and cash equivalents	$ (13,532)	$ 18,728	(32,260)	(172.3%)

Cash provided by operating activities during the fourth quarter of 2018 was $78.6 million, compared to cash provided by operating activities of $65.5 million in the corresponding period of 2017. The components for the fourth quarter of 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $110.8 million;
- working capital items use of cash of $6.2 million comprised of a decrease in trade, other payables and provisions of $38.7 million, an increase in inventories of $5.7 million, and an increase in prepaid expenses and deposits of $1.6 million; partially offset by a decrease in trade and other receivables of $39.8 million;
- interest paid (excluding capitalized interest) of $8.5 million; and
- income taxes paid of $17.5 million.

Cash used by financing activities during the fourth quarter of 2018 was $1.0 million, compared to cash used in financing activities of $10.1 million in the corresponding period in 2017, as a result of the repurchase of common shares by way of normal course issuer bid (as described in note 15 of the consolidated financial statements for the year ended December 31, 2018) of $16.6 million, and $3.9 million in dividends paid; partially offset by a $19.4 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility of $24.8 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $5.4 million).

Cash used in investing activities during the fourth quarter of 2018 was $91.7 million, compared to $37.4 million in the corresponding period in 2017. The components for the fourth quarter of 2018 primarily include the following:

- cash additions to PP&E of $88.2 million;
- capitalized development costs relating to upcoming new program launches of $4.1 million; partially offset by
- proceeds from the disposal of PP&E of $0.4 million; and
- the upfront recovery of development costs incurred of $0.1 million.

Taking into account the opening cash balance of $83.7 million at the beginning of the fourth quarter of 2018, and the activities described above, the cash and cash equivalents balance at December 31, 2018 was $70.2 million.

	Year ended December 31, 2018	Year ended December 31, 2017	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 461,012	$ 406,207	54,805	13.5%
Change in non-cash working capital items	(36,752)	(26,876)	(9,876)	36.7%
	424,260	379,331	44,929	11.8%
Interest paid	(30,855)	(20,304)	(10,551)	52.0%
Income taxes paid	(96,703)	(56,166)	(40,537)	72.2%
Cash provided by operating activities	296,702	302,861	(6,159)	(2.0%)
Cash provided by (used in) financing activities	20,181	(56,915)	77,096	(135.5%)
Cash used in investing activities	(319,757)	(230,620)	(89,137)	38.7%
Effect of foreign exchange rate changes on cash and cash equivalents	1,843	(3,298)	5,141	(155.9%)
Increase (decrease) in cash and cash equivalents	$ (1,031)	$ 12,028	(13,059)	(108.6%)

Cash provided by operating activities during the year ended December 31, 2018 was $296.7 million, compared to cash provided by operating activities of $302.9 million in the corresponding period of 2017. The components for the year ended December 31, 2018 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $461.0 million;
- working capital items use of cash of $36.8 million comprised of an increase in trade and other receivables of $7.6 million, an increase in inventories of $91.6 million, and an increase in prepaid expenses and deposits of $7.0 million; partially offset by an increase in trade, other payables and provisions of $69.4 million;
- interest paid (excluding capitalized interest) of $30.9 million; and
- income taxes paid of $96.7 million.

Cash provided by financing activities during the year ended December 31, 2018 was $20.2 million, compared to cash used of $56.9 million in the corresponding period in 2017, as a result of a $56.8 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility and new equipment loans totalling $114.5 million, net of additional deferred financing fees, partially offset by repayments made on equipment loans of $57.7 million), and $1.9 million in proceeds from the exercise of employee stock options; partially offset by the repurchase of common shares by way of normal course issuer bid (as described in note 14 of the consolidated financial statements for the year ended December 31, 2018) of $25.5 million, and $13.0 million in dividends paid.

Cash used in investing activities during the year ended December 31, 2018 was $319.8 million, compared to $230.6 million in the corresponding period in 2017. The components for the year ended December 31, 2018 primarily include the following:

- cash additions to PP&E of $309.0 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, 2018) of $0.7 million; partially offset by
- the upfront recovery of development costs incurred of $2.6 million; and
- proceeds from the disposal of PP&E of $1.6 million.

Taking into account the opening cash balance of $71.2 million at the beginning of 2018, and the activities described above, the cash and cash equivalents balance at December 31, 2018 was $70.2 million.

Financing

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

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

As at December 31, 2018, the Company had drawn $273.0 million (December 31, 2017 - $233.0 million) on the Canadian revolving credit line and US$286.0 million (December 31, 2017 - US$256.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) increased by $87.8 million from $582.8 million at December 31, 2017 to $670.6 million at December 31, 2018 due essentially to the financing of the Company's share repurchases in 2018 under the normal course issuer bid and foreign exchange translation of the Company's foreign denominated debt to the Company's Canadian dollar reporting currency. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio remained consistent year-over-year at 1.45x at the end of both 2018 and 2017.

The Company was in compliance with its debt covenants as at December 31, 2018.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23 million ($37 million) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans at fixed annual interest rates of 3.06%, 4.34% and 4.93%.

On October 2, 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 3.8%. 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 were to be $0.12 per share, to be paid in four quarterly payments of $0.03 per share. The first quarterly dividend payment of $0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter.

Early in 2018, in view of the Company's financial performance, and its future outlook and cash needs, the Board decided to increase the annual dividends by 50% to $0.18 per share, to be paid in four quarterly installments of $0.045 per share, commencing with the release of the first quarter results of 2018. The first such increased dividend was paid on July 15, 2018. The Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to twenty-four months depending upon the duration of the tooling program. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2018, the amount of off-balance sheet program financing was $58.9 million (December 31, 2017 - $75.2 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

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, 2018 (the "AIF) or otherwise incorporated herein by reference (including the trends described in the AIF), 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, trade issues, 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 for the past decade, 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 global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. (See "*Trade Policies and Resulting Impact (USMCA, NAFTA and the CPTPP)*" in the AIF under *"Automotive Industry General"* and "*Changes in Law and Governmental Regulation*" below.)

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 global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. See *"Description of the Business and Trends: Trade Policies and Resulting Impact (USMCA, NAFTA and the CPTPP)*" in the AIF and "*Changes in Law and Governmental Regulation*" below.

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. Although the Company continues to diversify its business, there is no assurance that it will be successful. In addition, a work disruption at one or more of the Company's customers, including 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, including trade volatility, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (fires, hurricanes, earthquakes, whether as a result of climate change or otherwise) and scarcity of raw materials 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 "*Risks: Dependence Upon Key Customers*" and "*Environmental Regulation*".

Competition

The markets for fluid management systems, cast aluminum products and fabricated metal products, assemblies and systems 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. In 2018 and 2019 to date, the Company and the industry has experienced steel and aluminum tariffs imposed by the U.S. and Canada, among others, in the context of trade negotiations. 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 and, in the case of tariffs, largely through obtaining tariff relief in most cases); 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, by avoiding tariffs 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 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 or systems 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, who set the culture, hire the talent, provide strategic direction, oversee operational excellence and drive financial discipline of the Company. The experience and talents of these individuals has been and 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.

The Company's business depends on its ability to attract, develop and retain experienced and highly skilled personnel. Such personnel are in high demand in the areas in which we compete, and competition for their services is intense. As a result of the rapid changes and the intense competition in the automotive industry, the Company has a growing need for skilled people and the Company may face substantial competition for such personnel, from traditional and less traditional sources. The inability to attract and retain highly-skilled personnel could have an adverse effect on the Company's operations and its ability to fully implement its business strategy.

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, at competitive prices. 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).

Joint Ventures

The Company has in the past and may from time to time conduct certain of its operations through joint ventures under contractual arrangements under which it shares management responsibilities with one or more partners. Joint venture operations carry a range of risks, including those relating to: failure of a joint venture partner to satisfy contractual obligations; potential conflicts between the Company and the joint venture partner; strategic objectives of joint venture partner(s) that may differ from the Company's; potential delays in decision-making; a more limited ability to control legal and regulatory compliance within the joint venture(s); and other risks inherent to non-wholly-owned operations. The likelihood of such occurrences and potential effect on the Company may vary depending on the joint venture arrangement; however, the occurrence of any such risks could have an adverse effect on the Company's operations, profitability and reputation;

Potential Rationalization Costs and Turnaround Costs

The Company has incurred restructuring costs over the past several years, sometimes in conjunction with the cancelation of a customer program or the closing of a customer plant. 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.

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.

Trade Restrictions

The global growth of the automotive industry has been aided by the free movement of goods, services, people and capital through bilateral and regional trade agreements, particularly in North America and Europe. Introduction of measures which impede free trade, including new or increased tariffs and other trade barriers, could have a material adverse effect on the Company's operations and profitability. (See also "*Changes in Laws and Governmental Regulations*").

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 (now USMCA, if, as and when ratified), the CPTPP or Brexit, the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States or China (such as increased tariffs or investigations relating to anti-dumping) or positive or negative changes in tax or other legislation. In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs. Changes in legislation or regulation could lead to additional administrative burden and costs in general, and also carry the potential of a material fine or significant reputational risk. Changes in laws or regulations could also result in the Company shifting its operations to more favourable jurisdictions (see "*Litigation and Regulatory Compliance and Investigations*" "*Potential Rationalization and Turnaround Costs*" and "*Currency Risk: Competitiveness in Certain Jurisdictions*").

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". 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 and privacy legislation such as GDPR). 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

Currency fluctuations may negatively or positively affect the competitiveness of the Company's operations in a particular jurisdiction. As a result, the Company may move some existing work to another country, or may source work to different 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 plants are consolidated, downsized or closed, or as plants in other jurisdictions 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, contamination or incidents, 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"*.)

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 and its 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 endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address environmental concerns of its customers. Despite these efforts, evolving customer concerns could negatively affect the Company's reputation and financial performance.

The Company requires compliance with its policies both internally and, where relevant, for its suppliers. Although the Company requires its suppliers to comply with these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs, potentially causing shortages in products, delays in delivery or other disruptions in operations. (See *"Supply Chain Responsibility"* in the AIF.)

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

Due to the global nature of the Company's business, suppliers may operate in regions that are susceptible to extreme weather events, such as earthquakes, tsunamis or hurricanes, which could have a material impact on the availability of a product. The Company has policies and procedures in place to mitigate such risk and obtain alternate supply; however, that may not be possible in all cases for a critical component. Any interruption to the Company's supply of product or resulting changes in price to the Company could lower the Company's revenues, increase its operating costs and impact its financial results. (See also *"Financial Viability of Suppliers".*)

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 or incidents, including any environmental compliance or incidents or trends that may impact their businesses) or from environmental matters in general, including any arising from climate change, 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 trends 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, or a change in trends 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 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;
- environmental risk;
- 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. Current relations, trade and otherwise, between China, the U.S. and Canada have increased some of the risks of operating in China and dealing with Chinese operations.

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, 2018). 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, 2018, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2018, 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 2019 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, 2018, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2018.

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, 2018, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2019 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, 2018, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2018.

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.

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.

In certain circumstances that the Company determines that its share price is undervalued, the Company may use funds, that would otherwise be available for its operations or other uses, to repurchase its own shares as an investment. However, there can be no assurances that any such repurchase of shares will have a positive impact on the Company's share price.

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 may increase the dividend 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 February 28, 2019, the Company had 82,808,607 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at February 28, 2019, options to acquire 2,350,700 common shares were outstanding.

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

During 2018, since the commencement of the NCIB on August 31, 2018, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of $25.5 million, resulting in a decrease to stated capital of $17.7 million and a decrease to retained earnings of $7.8 million. Subsequent to December 31, 2018, the Company purchased for cancellation another 2,120,577 common shares for an aggregate purchase price of $25.4 million under an automatic share repurchase program with a broker. The shares were purchased for cancellation under the NCIB.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

At December 31, 2018, 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)	$	369,928	-	-	-	-	-	369,928
Long-term debt	$	16,804	13,887	13,901	673,985	6,182	15,958	740,717
Lease commitments	$	39,601	34,838	29,979	26,583	24,324	84,727	240,052
Total Contractual obligations	$	426,333	48,725	43,880	700,568	30,506	100,685	1,350,697

(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, 2018, the amount of the off balance sheet program financing was $58.9 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-24 months.

Hedge Accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

Cash flow hedges:

During the year ended December 31, 2018, the Company started hedging variability in cash flows of certain forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales in a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects net income (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in net income.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net income, at the earlier of when the hedged item affects net income, or when the forecasted item is no longer expected to occur.

Net investment hedges:

The Company continues to use some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments in certain US operations.

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2018.

Financial Instruments

The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

At December 31, 2018, the Company had committed to trade the following foreign exchange contracts:

Foreign exchange contracts not accounted for a hedges and fair valued through profit or loss:

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	40,000	1.3462	1
Buy Mexican Peso	$	23,857	20.1200	1

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax gain of $0.07 million and was recorded in trade and other receivables ((December 31, 2017 – loss of $0.1 million recorded in trade and other payables).

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

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$	57,900	1.2780	48

The aggregate value of these forward contracts as at December 31, 2018 was a pre-tax loss of $4.1 million and was recorded in trade and other payables (December 31, 2017 – nil).

INVESTMENTS

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of $2.5 million through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of $0.70 per share for a period of up to two years after issuance.

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

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of $0.7 million through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of $2.30 per share for a period of up to two years after issuance.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at December 31, 2018, the warrants had a fair value of $2.2 million. Based on the fair value of the warrants as at December 31, 2018, an unrealized loss of $1.9 million was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $3.7 million), recorded in other finance income (expense) in the consolidated statement of operations. The table below summarizes the assumptions used, on a weighted average basis, in valuing the warrants under the Black-Scholes-Merton valuation model during the year ended December 31, 2018:

	2018 Acquisition	**December 31, 2018**
Expected volatility	66.87%	74.23%
Risk free interest rate	1.88%	1.86%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically quoted prices, with the change in fair value recorded in other comprehensive income. As at December 31, 2018, the common shares had a fair value of $8.6 million. Based on the fair value of the common shares as at December 31, 2018, an unrealized loss of $3.3 million ($2.9 million net of tax) was recognized for the year ended December 31, 2018 (2017 - unrealized gain of $9.1 million, $8.0 million net of tax).

Subsequent to December 31, 2018, on January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of approximately $15.0 million through another private placement offering. Subsequent to the completion of the transaction, Martinrea holds an aggregate of 17,449,800 common shares of NanoXplore which represents approximately 16% of the issued and outstanding common shares of NanoXplore.

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, 2018, 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, 2018. 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, 2018 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, 2018 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.

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 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 of CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the 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; (ii) the determination of the Company's CGUs requires judgement; and (iii) 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, 2018, 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 $61.0 million (2017 - $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.

Revenue Recognition

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

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.

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, 2018 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.

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 consolidated statements of operations.

Judgement is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit. Further, estimates are used to test the recoverability of development costs. Any resulting impairment loss could have a material impact on consolidated net income and the amount of assets reported on the Company's consolidated balance sheet.

Expenditure on research activities, including costs of market research and new product prototyping during the marketing stage, is recognized in profit or loss when incurred.

RECENTLY ADOPTED AND APPLICABLE ACCOUNTING STANDARDS AND POLICIES (INCLUDING ANY CHANGES TO CRITICAL ACCOUNTING ESTIMATES)

The Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), IFRS 9, Financial Instruments ("IFRS 9") and amendments made to Share-Based Payments ("IFRS 2"), effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements. The Company's revenue recognition accounting policy has been updated accordingly as described above and in note 2(j) of the consolidated financial statements for the year ended December 31, 2018.

Upon adoption of the new standard, additional disclosures related to the nature, amount, timing and uncertainty of the Company's revenues and cash flows arising from contracts with customers have been included in the consolidated financial statements, with comparative information, including a continuity of contract liabilities and a breakdown of the Company's revenues between production and tooling.

IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements. The Company's accounting policies on financial instruments have been updated accordingly as described in note 2(c) of the consolidated financial statements for the year ended December 31, 2018.

IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standard under IFRS 9 and continuing with the current IAS 39 hedge accounting standards. The Company has decided to continue to apply IAS 39 hedge accounting standards.

Amendments to IFRS 2, Share-Based Payments

The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

Recently issued accounting standards

The IASB issued the following new standards:

IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRS 16 introduces a single accounting model for lessees unless the underlying asset is of low value. A lessee will be required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company will adopt the standard January 1, 2019, by applying the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings on the date of initial application without restating comparative prior periods, as permitted by the transitional guidance. The impact of adoption will result in the recognition of right-of-use assets estimated in the range of $200 million to $250 million, with corresponding lease liabilities in the same range. The adoption of IFRS 16 will also result in a decrease in operating rent expense, and increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The standard will not have a significant impact on the Company's overall consolidated operating results and cash flows.

SELECTED ANNUAL INFORMATION

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.

		2018		2017		2016
Sales	$	3,662,900	$	3,690,499	$	3,968,407
Gross Margin		556,161		484,601		432,050
Operating Income		276,472		246,624		159,444
Net Income for the period		185,883		159,266		91,961
Net Income Attributable to Equity Holders of the Company	$	185,883	$	159,543	$	92,380
Net Earnings per Share - Basic	$	2.15	$	1.84	$	1.07
Net Earnings per Share - Diluted	$	2.14	$	1.84	$	1.07
Non-IFRS Measures*						
Adjusted Operating Income	$	283,981	$	236,807	$	197,707
% of sales		7.8%		6.4%		5.0%
Adjusted EBITDA		461,223		401,493		350,357
% of sales		12.6%		10.9%		8.8%
Adjusted Net Income Attributable to Equity Holders of the Company	$	193,166	$	165,519	$	130,085
Adjusted Net Earnings per Share - Basic	$	2.23	$	1.91	$	1.51
Adjusted Net Earnings per Share - Diluted	$	2.22	$	1.91	$	1.50
Total Assets	$	2,913,811	$	2,541,173	$	2,468,494
Cash and Cash Equivalents	$	70,162	$	71,193	$	59,165
Total Interest Bearing Debt	$	740,717	$	654,017	$	721,403
Dividends Declared	$	14,213	$	10,388	$	10,366

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, 2017, 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 3 and 4 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2018 and 2017 and the Company’s MD&A for the year ended December 31, 2017, as previously filed and available at www.sedar.com, for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2016.

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 those related to the Company’s expectations as to, or its views, or beliefs in or on, the growth of the Company and pursuit of, and belief in, its strategies, investments in its business and technologies, the management and monitoring of SG&A expenses, the financing of future capital expenditures, and ability to fund anticipated working capital needs, the Company’s views on its liquidity and ability to deal with present economic conditions, the impact of tariffs, the USMCA and trade disputes and negotiations on the automotive industry, global markets and the Company’s profitability, for the growth of the automotive market, the effect of regulation on demand for automobiles, the potential for future acquisitions, the potential volatility of the Company’s shares, the potential for fluctuation of operating results, the compliance in Brazil tax legislation and its success in defending the claims, the funding and reduction of liability in pension plans, the likelihood of tooling supplier default under tooling guarantee programs, 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, 2018 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- the risks associated with joint ventures;
- costs associated with rationalization of production facilities;
- launch and operational costs;
- labour disputes;
- changes in governmental regulations or laws including any changes to trade;
- litigation and regulatory compliance and investigations;
- 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 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;
- cybersecurity threats;
- the potential volatility of the Company's share price; 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.