



**MARTINREA INTERNATIONAL INC.  
INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017**

# Martinrea International Inc.

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**Martinrea International Inc.**  
**Interim Condensed Consolidated Balance Sheets**  
*(in thousands of Canadian dollars) (unaudited)*

	Note	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
Cash and cash equivalents		\$ 57,143	\$ 59,165
Trade and other receivables	2	604,599	568,445
Inventories	3	338,901	306,130
Prepaid expenses and deposits		18,198	14,758
Income taxes recoverable		12,192	9,786
<b>TOTAL CURRENT ASSETS</b>		<b>1,031,033</b>	<b>958,284</b>
Property, plant and equipment	4	1,271,438	1,257,247
Deferred income tax assets		177,948	179,702
Intangible assets	5	70,566	73,261
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,519,952</b>	<b>1,510,210</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,550,985</b>	<b>\$ 2,468,494</b>
<b>LIABILITIES</b>			
Trade and other payables	7	\$ 767,102	\$ 707,007
Provisions	8	5,988	6,689
Income taxes payable		30,499	18,622
Current portion of long-term debt	9	19,251	27,982
<b>TOTAL CURRENT LIABILITIES</b>		<b>822,840</b>	<b>760,300</b>
Long-term debt	9	658,138	693,421
Pension and other post-retirement benefits		72,549	66,863
Deferred income tax liabilities		97,905	118,234
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>828,592</b>	<b>878,518</b>
<b>TOTAL LIABILITIES</b>		<b>1,651,432</b>	<b>1,638,818</b>
<b>EQUITY</b>			
Capital stock	11	710,794	710,510
Contributed surplus		42,652	42,660
Accumulated other comprehensive income		104,694	117,048
Retained earnings (accumulated deficit)		42,005	(40,020)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>900,145</b>	<b>830,198</b>
Non-controlling interest		(592)	(522)
<b>TOTAL EQUITY</b>		<b>899,553</b>	<b>829,676</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,550,985</b>	<b>\$ 2,468,494</b>

**Contingencies (note 16)**

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer"                      Director

"Scott Balfour"                      Director

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Operations

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

	Note	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>SALES</b>		\$ 972,772	\$ 1,023,825	\$ 1,973,322	\$ 2,063,275
Cost of sales (excluding depreciation of property, plant and equipment)		(808,539)	(876,102)	(1,658,324)	(1,772,316)
Depreciation of property, plant and equipment (production)		(35,307)	(31,501)	(67,857)	(62,919)
Total cost of sales		(843,846)	(907,603)	(1,726,181)	(1,835,235)
<b>GROSS MARGIN</b>		128,926	116,222	247,141	228,040
Research and development costs		(6,437)	(5,903)	(13,252)	(12,132)
Selling, general and administrative		(52,539)	(50,661)	(105,138)	(102,115)
Depreciation of property, plant and equipment (non-production)		(2,412)	(2,100)	(4,671)	(4,304)
Amortization of customer contracts and relationships		(540)	(588)	(1,080)	(1,123)
Gain on sale of land and building	4	-	-	5,698	-
Gain/(loss) on disposal of property, plant and equipment		(40)	22	293	(29)
Impairment of assets	6	-	(34,579)	-	(34,579)
Restructuring costs	8	-	(3,684)	-	(3,684)
<b>OPERATING INCOME</b>		66,958	18,729	128,991	70,074
Finance expense		(5,497)	(5,900)	(11,341)	(12,094)
Other finance income (expense)	13	112	(1,219)	743	(3,340)
<b>INCOME BEFORE INCOME TAXES</b>		61,573	11,610	118,393	54,640
Income tax expense	10	(14,162)	(11,637)	(27,515)	(22,136)
<b>NET INCOME FOR THE PERIOD</b>		\$ 47,411	\$ (27)	\$ 90,878	\$ 32,504
Non-controlling interest		(65)	(15)	70	25
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 47,346	\$ (42)	\$ 90,948	\$ 32,529
Basic earnings per share	12	\$ 0.55	\$ -	\$ 1.05	\$ 0.38
Diluted earnings per share	12	\$ 0.55	\$ -	\$ 1.05	\$ 0.38

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	\$ 47,411	\$ (27)	\$ 90,878	\$ 32,504
<b>Other comprehensive income (loss), net of tax:</b>				
<b>Items that may be reclassified to net income</b>				
Foreign currency translation differences for foreign operations	(7,664)	(9,493)	(12,354)	(50,924)
<b>Items that will not be reclassified to net income</b>				
Actuarial losses from the remeasurement of defined benefit plans	(3,194)	(935)	(3,729)	(5,420)
<b>Other comprehensive income (loss), net of tax</b>	<b>(10,858)</b>	<b>(10,428)</b>	<b>(16,083)</b>	<b>(56,344)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>\$ 36,553</b>	<b>\$ (10,455)</b>	<b>\$ 74,795</b>	<b>\$ (23,840)</b>
<b>Attributable to:</b>				
Equity holders of the Company	36,488	(10,470)	74,865	(23,815)
Non-controlling interest	65	15	(70)	(25)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>\$ 36,553</b>	<b>\$ (10,455)</b>	<b>\$ 74,795</b>	<b>\$ (23,840)</b>

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

Equity attributable to equity holders of the Company							
	Capital stock	Contributed surplus	Cumulative translation account	Retained earnings/ (accumulated deficit)	Total	Non- controlling interest	Total equity
Balance at December 31, 2015	\$ 709,396	\$ 42,648	\$ 147,442	\$ (123,157)	\$ 776,329	\$ (103)	\$ 776,226
Net income for the period	-	-	-	32,529	32,529	(25)	32,504
Compensation expense related to stock options	-	166	-	-	166	-	166
Dividends (\$0.06 per share)	-	-	-	(5,183)	(5,183)	-	(5,183)
Exercise of employee stock options	101	(29)	-	-	72	-	72
<u>Other comprehensive loss,</u> <u>net of tax</u>							
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	(5,420)	(5,420)	-	(5,420)
Foreign currency translation differences	-	-	(50,924)	-	(50,924)	-	(50,924)
Balance at June 30, 2016	709,497	42,785	96,518	(101,231)	747,569	(128)	747,441
Net income for the period	-	-	-	59,851	59,851	(394)	59,457
Compensation expense related to stock options	-	167	-	-	167	-	167
Dividends (\$0.06 per share)	-	-	-	(5,183)	(5,183)	-	(5,183)
Exercise of employee stock options	1,013	(292)	-	-	721	-	721
<u>Other comprehensive income,</u> <u>net of tax</u>							
Actuarial gains from the remeasurement of defined benefit plans	-	-	-	6,543	6,543	-	6,543
Foreign currency translation differences	-	-	20,530	-	20,530	-	20,530
Balance at December 31, 2016	710,510	42,660	117,048	(40,020)	830,198	(522)	829,676
Net income for the period	-	-	-	90,948	90,948	(70)	90,878
Compensation expense related to stock options	-	74	-	-	74	-	74
Dividends (\$0.06 per share)	-	-	-	(5,194)	(5,194)	-	(5,194)
Exercise of employee stock options	284	(82)	-	-	202	-	202
<u>Other comprehensive loss,</u> <u>net of tax</u>							
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	(3,729)	(3,729)	-	(3,729)
Foreign currency translation differences	-	-	(12,354)	-	(12,354)	-	(12,354)
Balance at June 30, 2017	\$ 710,794	\$ 42,652	\$ 104,694	\$ 42,005	\$ 900,145	\$ (592)	\$ 899,553

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES:</b>				
Net Income for the period	\$ 47,411	\$ (27)	\$ 90,878	\$ 32,504
Adjustments for:				
Depreciation of property, plant and equipment	37,719	33,601	72,528	67,223
Amortization of customer contracts and relationships	540	588	1,080	1,123
Amortization of development costs	3,450	3,490	6,646	6,959
Impairment of assets (note 6)	-	34,579	-	34,579
Unrealized losses on foreign exchange forward contracts	2,146	1,619	450	916
Finance costs	5,497	5,900	11,341	12,094
Income tax expense	14,162	11,637	27,515	22,136
Gain on sale of land and building (note 4)	-	-	(5,698)	-
Loss(Gain) on disposal of property, plant and equipment	40	(22)	(293)	29
Stock options expense	38	83	74	166
Deferred and restricted share units expense	691	253	789	253
Pension and other post-retirement benefits expense	1,154	1,158	2,292	2,267
Contributions made to pension and other post-retirement benefits	(476)	(707)	(976)	(1,039)
	112,372	92,152	206,626	179,210
Changes in non-cash working capital items:				
Trade and other receivables	14,544	(15,032)	(43,102)	(66,146)
Inventories	(18,203)	27,528	(36,752)	8,328
Prepaid expenses and deposits	(1,821)	(1,355)	(3,865)	(820)
Trade, other payables and provisions	(22,090)	4,219	97,505	8,389
	84,802	107,512	220,412	128,961
Interest paid (excluding capitalized interest)	(4,844)	(5,112)	(9,964)	(10,000)
Income taxes paid	(9,205)	(18,222)	(32,657)	(31,268)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 70,753</b>	<b>\$ 84,178</b>	<b>\$ 177,791</b>	<b>\$ 87,693</b>
<b>FINANCING ACTIVITIES:</b>				
Increase in long-term debt	-	19,086	-	88,810
Repayment of long-term debt	(7,631)	(9,533)	(34,590)	(22,520)
Dividends paid	(2,591)	(2,592)	(5,182)	(5,183)
Exercise of employee stock options	-	-	202	72
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (10,222)</b>	<b>\$ 6,961</b>	<b>\$ (39,570)</b>	<b>\$ 61,179</b>
<b>INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment*	(56,213)	(43,706)	(143,552)	(102,961)
Capitalized development costs	(3,768)	(3,245)	(7,291)	(6,311)
Proceeds on disposal of property, plant and equipment	167	56	625	245
Upfront recovery of development costs incurred	1,170	-	1,170	-
Proceeds on disposal of land and building (note 4)	-	-	9,872	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (58,644)</b>	<b>\$ (46,895)</b>	<b>\$ (139,176)</b>	<b>\$ (109,027)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(793)	(1,790)	(1,067)	(3,907)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,094</b>	<b>42,454</b>	<b>(2,022)</b>	<b>35,938</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>56,049</b>	<b>22,383</b>	<b>59,165</b>	<b>28,899</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 57,143</b>	<b>\$ 64,837</b>	<b>\$ 57,143</b>	<b>\$ 64,837</b>

\*As at June 30, 2017, \$39,737 (December 31, 2016- \$71,557) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. The Company is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector.

### 1. BASIS OF PREPARATION

#### (a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2016, except as outlined in note 1(d).

#### (b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2016.

#### (c) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

#### (d) Recently adopted accounting standards and policies

##### *Amendments to IAS 7, Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company adopted the amendments to IAS 7 effective January 1, 2017. The adoption of this amended standard resulted in some additional disclosure in note 9 (Long-term debt) of the interim condensed consolidated financial statements for the three and six months ended June 30, 2017.

##### *Performance and Restricted Share Unit Plan*

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

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



# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### (e) Recently issued accounting standards

The IASB issued the following amendments to existing standards:

#### *IFRS 15, Revenue from Contracts with Customer*

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

#### *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding IAS 39 Financial Instruments: Recognition and Measurement standard. IFRS 9 establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 9 on the consolidated financial statements. The extent of the impact has not yet been determined.

#### *IFRS 16, Leases*

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on the consolidated financial statements. The extent of the impact has not yet been determined.

#### *Amendments to IFRS 2, Share-Based Payments*

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently assessing the impact of the amendments to IFRS 2 on the consolidated financial statements. The extent of the impact has not yet been determined.

## 2. TRADE AND OTHER RECEIVABLES

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Trade receivables	\$ 587,766	\$ 555,074
VAT and other receivables	16,833	13,371
	<b>\$ 604,599</b>	<b>\$ 568,445</b>

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 15.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 3. INVENTORIES

	June 30, 2017	December 31, 2016
Raw materials	\$ 156,268	\$ 146,802
Work in progress	42,384	38,323
Finished goods	38,212	39,088
Tooling work in progress and other inventory	102,037	81,917
	\$ 338,901	\$ 306,130

### 4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2017			December 31, 2016		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 154,924	\$ (40,239)	\$ 114,685	\$ 161,438	\$ (41,389)	\$ 120,049
Leasehold improvements	58,588	(34,619)	23,969	58,303	(33,316)	24,987
Manufacturing equipment	1,730,606	(903,293)	827,313	1,684,395	(876,359)	808,036
Tooling and fixtures	42,496	(34,171)	8,325	42,806	(34,387)	8,419
Other assets	51,134	(24,622)	26,512	40,795	(23,038)	17,757
Construction in progress and spare parts	270,634	-	270,634	277,999	-	277,999
	\$ 2,308,382	\$ (1,036,944)	\$ 1,271,438	\$ 2,265,736	\$ (1,008,489)	\$ 1,257,247

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2015	\$ 113,323	\$ 24,604	\$ 780,750	\$ 5,743	\$ 17,936	\$ 259,806	\$ 1,202,162
Additions	-	221	7,083	18	304	241,828	249,454
Disposals	(4)	-	(512)	-	(62)	(207)	(785)
Depreciation	(4,038)	(4,510)	(121,976)	(1,604)	(4,216)	-	(136,344)
Impairment (note 6)	-	(723)	(21,021)	-	(26)	-	(21,770)
Transfers from construction in progress and spare parts	13,005	6,131	188,457	4,310	4,417	(216,320)	-
Foreign currency translation adjustment	(2,237)	(736)	(24,745)	(48)	(596)	(7,108)	(35,470)
Net as of December 31, 2016	\$ 120,049	\$ 24,987	\$ 808,036	\$ 8,419	\$ 17,757	\$ 277,999	\$ 1,257,247
Additions	-	4	1,401	-	203	110,124	111,732
Disposals	(3,363)	-	(1,017)	-	(126)	-	(4,506)
Depreciation	(2,037)	(2,089)	(65,078)	(742)	(2,582)	-	(72,528)
Transfers from construction in progress and spare parts	2,508	1,257	97,204	909	11,450	(113,328)	-
Foreign currency translation adjustment	(2,472)	(190)	(13,233)	(261)	(190)	(4,161)	(20,507)
Net as of June 30, 2017	\$ 114,685	\$ 23,969	\$ 827,313	\$ 8,325	\$ 26,512	\$ 270,634	\$ 1,271,438

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At June 30, 2017, the carrying value of property, plant and equipment under such arrangements was \$23,370 (December 31, 2016– \$25,632). The corresponding amounts owing are reflected within long-term debt (note 9).

During the quarter ended March 31, 2017, in connection with the relocation of an existing operation to another manufacturing facility, a building owned by the Company in Mississauga, Ontario was sold on an “as-is, where-is” basis. The building was sold for proceeds of \$9,872 (net of closing costs of \$378) resulting in a pre-tax gain of \$5,698.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 5. INTANGIBLE ASSETS

	June 30, 2017			December 31, 2016		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 61,792	\$ (54,716)	\$ 7,076	\$ 62,044	\$ (53,872)	\$ 8,172
Development costs	141,422	(77,932)	63,490	138,416	(73,327)	65,089
	\$ 203,214	\$ (132,648)	\$ 70,566	\$ 200,460	\$ (127,199)	\$ 73,261

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2015	\$ 10,773	\$ 72,817	\$ 83,590
Additions	-	12,624	12,624
Amortization	(2,307)	(13,652)	(15,959)
Impairment (note 6)	-	(4,179)	(4,179)
Foreign currency translation adjustment	(294)	(2,521)	(2,815)
Net as of December 31, 2016	\$ 8,172	\$ 65,089	\$ 73,261
Additions	-	7,291	7,291
Amortization	(1,080)	(6,646)	(7,726)
Upfront recovery of development costs incurred	-	(1,170)	(1,170)
Foreign currency translation adjustment	(16)	(1,074)	(1,090)
Net as of June 30, 2017	\$ 7,076	\$ 63,490	\$ 70,566

### 6. IMPAIRMENT OF ASSETS

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Property, plant and equipment	\$ -	\$ 21,770	\$ -	\$ 21,770
Intangible Assets - Development costs	-	4,179	-	4,179
Inventories	-	8,630	-	8,630
Total Impairment	\$ -	\$ 34,579	\$ -	\$ 34,579

### 7. TRADE AND OTHER PAYABLES

	June 30, 2017	December 31, 2016
Trade accounts payable and accrued liabilities	\$ 766,652	\$ 706,799
Foreign exchange forward contracts (note 15(d))	450	208
	\$ 767,102	\$ 707,007

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 15.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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### 8. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Total
Net as of December 31, 2015	\$ 14,026	\$ 1,572	\$ 15,598
Net additions	3,684	189	3,873
Amounts used during the period	(12,118)	(512)	(12,630)
Foreign currency translation adjustment	(344)	192	(152)
Net as of December 31, 2016	\$ 5,248	\$ 1,441	\$ 6,689
Net additions	-	4,217	4,217
Amounts used during the period	(3,198)	(1,535)	(4,733)
Foreign currency translation adjustment	67	(252)	(185)
Net as of June 30, 2017	\$ 2,117	\$ 3,871	\$ 5,988

Based on estimated cash outflows, all provisions as at June 30, 2017 and December 31, 2016 are presented on the interim condensed consolidated balance sheet as current.

#### (a) Restructuring

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

Other additions to the restructuring accrual during 2016 totaled \$1,874 (US\$1,441) and represent expected employee related payouts resulting from the closure of an operating facility in Detroit, Michigan as described in note 6.

#### (b) Claims and litigation

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

The increase in claims and litigation provision for the six months ended June 30, 2017 predominately related to certain employee-related matters in the Company's operating facility in Brazil stemming in part from the right sizing of its workforce conducted by the Company after the business was acquired in 2011.

### 9. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 15.

	June 30, 2017	December 31, 2016
Banking facility	\$ 602,107	\$ 631,879
Equipment loans	75,282	89,524
	677,389	721,403
Current portion	(19,251)	(27,982)
	\$ 658,138	\$ 693,421

# Martinrea International Inc.

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Terms and conditions of outstanding loans, as at June 30, 2017, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	June 30, 2017 Carrying amount	December 31, 2016 Carrying amount
Banking facility	USD	LIBOR+1.75%	2020	\$ 332,211	\$ 362,529
	CAD	BA+1.75%	2020	269,896	269,350
Equipment loans	USD	4.25%	2018	16,077	23,532
	EUR	3.06%	2024	16,039	15,337
	EUR	2.54%	2025	15,314	14,648
	EUR	4.93%	2023	14,891	14,370
	USD	7.36%	2017	3,048	6,195
	EUR	3.35%	2019	3,222	3,797
	EUR	4.34%	2025	3,179	3,041
	EUR	1.36%	2021	2,365	2,548
	USD	4.25%	2017	143	3,872
	USD	3.80%	2022	468	527
	EUR	0.26%	2025	369	353
	BRL	5.00%	2020	167	200
	EUR	3.37%	2017	-	904
	USD	3.99%	2017	-	200
					\$ 677,389

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

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

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

As at June 30, 2017, the Company has drawn US\$256,000 (December 31, 2016 - US\$270,000) on the U.S. revolving credit line and drawn \$273,000 (December 31, 2016 - \$273,000) on the Canadian revolving credit line. At June 30, 2017, the weighted average effective rate of the banking facility credit lines was 2.9% (December 31, 2016 - 2.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2017.

Deferred financing fees of \$3,510 (December 31, 2016 - \$4,194) have been netted against the carrying amount of the long-term debt.

Future annual minimum principal repayments are as follows:

Within one year	\$ 19,251
One to two years	6,704
Two to three years	605,621
Three to four years	6,881
Thereafter	38,932
	\$ 677,389

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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Movement in long-term debt is summarized as follows:

	<b>Total</b>
Net as of December 31, 2015	\$ 717,012
Drawn downs and loan proceeds (net of capitalized deferred financing fees of \$2,370)	90,784
Repayments	(69,499)
Amortization of deferred financing fees	1,169
Foreign currency translation adjustment	(18,063)
Net as of December 31, 2016	\$ 721,403
Repayments	(34,590)
Amortization of deferred financing fees	684
Foreign currency translation adjustment	(10,108)
Net as of June 30, 2017	\$ 677,389

### 10. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Current income tax expense	\$ (17,506)	\$ (10,462)	\$ (42,429)	\$ (24,725)
Deferred income tax recovery (expense)	3,344	(1,175)	14,914	2,589
Total income tax expense	\$ (14,162)	\$ (11,637)	\$ (27,515)	\$ (22,136)

### 11. CAPITAL STOCK

<b>Common shares outstanding:</b>	<b>Number</b>	<b>Amount</b>
Balance, December 31, 2015	86,374,667	\$ 709,396
Exercise of stock options	10,000	101
Balance, June 30, 2016	86,384,667	\$ 709,497
Exercise of stock options	100,000	1,013
Balance, December 31, 2016	86,484,667	\$ 710,510
Exercise of stock options	27,500	284
Balance, June 30, 2017	86,512,167	\$ 710,794

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

#### Stock options

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

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,010,617	\$ 11.38	4,340,617	\$ 12.38
Exercised during the period	(27,500)	7.33	(10,000)	7.20
Cancelled during the period	(647,500)	14.41	(1,000,000)	16.15
Balance, end of period	2,335,617	\$ 10.59	3,330,617	\$ 11.26
Options exercisable, end of period	2,210,617	\$ 10.52	3,080,617	\$ 11.21

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2017:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$6.00 - 8.99	872,368	2008 - 2012	2018 - 2022
\$9.00 - 9.99	50,000	2008	2018
\$10.00 - 15.99	1,155,749	2007 - 2015	2017 - 2025
\$16.00 - 17.75	257,500	2007	2017
Total share purchase options	2,335,617		

For the three and six months ended June 30, 2017, the Company expensed \$38 (three months ended June 30, 2016 - \$83) and \$74 (six months ended June 30, 2016 - \$166) respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

### Deferred Share Unit Plan

The following is a summary of the issued and outstanding DSUs as at June 30, 2017:

	Six months ended June 30, 2017	Six months ended June 30, 2016
Units outstanding, beginning of period	67,837	-
Units granted during the period	30,894	30,000
Units settled during the period	-	-
Units granted for dividends earned during the period (issued twice a year)	420	-
Units outstanding, end of period	99,151	30,000

The DSUs granted during the six months ended June 30, 2017 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of \$9.71 on the date of grant. At June 30, 2017, the fair value of all outstanding DSUs amounted to \$1,066 (June 30, 2016 - \$253 and December 31, 2016 - \$568). For the three and six months ended June 30, 2017, DSU compensation expense amounted to \$400 (three months ended June 30, 2016 - \$ 253) and \$498 (six months ended June 30, 2016 - \$253), respectively, which was recorded in the statement of operations.

### Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSUs and PSUs for the six months ended June 30, 2017:

	RSUs	PSUs	Total
Units outstanding, beginning of period	-	-	-
Units granted during the period	27,232	27,232	54,464
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, end of period	27,232	27,232	54,464

The RSUs and PSUs granted during the six months ended June 30, 2017 had a weighted average fair value per unit of \$11.41 on the date of grant. For the three and six months ended June 30, 2017, RSU and PSU compensation expense amounted to \$291 (three and six months ended June 30, 2016 - \$Nil).

Unrecognized RSU and PSU compensation expense as at June 30, 2017 was \$333 and will be recognized in earnings over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the three and six months ended June 30, 2017 are shown in the table below:

Expected life (in years)	2.67
Risk-free discount rate	0.74%

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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### 12. EARNINGS PER SHARE

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

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,512,167	\$ 0.55	86,384,667	\$ -
Effect of dilutive securities:				
Stock options	274,099	-	192,929	-
Diluted	86,786,266	\$ 0.55	86,577,596	\$ -

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,502,084	\$ 1.05	86,384,501	\$ 0.38
Effect of dilutive securities:				
Stock options	211,813	-	218,470	-
Diluted	86,713,897	\$ 1.05	86,602,971	\$ 0.38

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For the three months ended June 30, 2017, 1,119,500 options (three months ended June 30, 2016, – 2,090,749) and for the six months ended June 30, 2017, 1,413,249 options (six months ended June 30, 2016, – 2,090,749) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

### 13. OTHER FINANCE INCOME (EXPENSE)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net foreign exchange gain (loss)	\$ 49	\$ (1,276)	\$ 615	\$ (3,398)
Other income, net	63	57	128	58
Other finance income (expense)	\$ 112	\$ (1,219)	\$ 743	\$ (3,340)

### 14. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2016. The Company uses segment operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments. The following is a summary of selected data for each of the Company's segments:



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## Notes to the Interim Condensed Consolidated Financial Statements

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	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 235,288		\$ 226,514	
USA	372,078		432,782	
Mexico	235,190		217,363	
Eliminations	(53,501)		(39,885)	
	\$ 789,055	\$ 60,358	\$ 836,774	\$ 10,363
Europe				
Germany	106,689		108,899	
Spain	34,406		46,384	
Slovakia	14,834		14,302	
Eliminations	(309)		(1,336)	
	155,620	9,279	168,249	9,644
Rest of the World	32,767	(2,679)	22,312	(1,278)
Eliminations	(4,670)		(3,510)	
	\$ 972,772	\$ 66,958	\$ 1,023,825	\$ 18,729

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 464,140		\$ 460,890	
USA	758,472		876,049	
Mexico	465,372		423,154	
Eliminations	(95,945)		(80,009)	
	\$ 1,592,039	\$ 113,511	\$ 1,680,084	\$ 53,967
Europe				
Germany	219,555		218,291	
Spain	79,132		87,070	
Slovakia	29,631		29,157	
Eliminations	(378)		(1,540)	
	327,940	21,858	332,978	18,519
Rest of the World	59,844	(6,378)	57,105	(2,412)
Eliminations	(6,501)		(6,892)	
	\$ 1,973,322	\$ 128,991	\$ 2,063,275	\$ 70,074

### 15. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt, and foreign exchange forward contracts.

#### Fair Value

IFRS 13 "Fair Value Measurement" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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## Notes to the Interim Condensed Consolidated Financial Statements

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- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 57,143	\$ 57,143	\$ -	\$ -
Foreign exchange forward contracts (note 7)	\$ (450)	\$ -	\$ (450)	\$ -

  

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 59,165	\$ 59,165	\$ -	\$ -
Foreign exchange forward contracts (note 7)	\$ (208)	\$ -	\$ (208)	\$ -

### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

June 30, 2017	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 604,599	\$ -	\$ 604,599	\$ 604,599
	-	604,599	-	604,599	604,599
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	(766,652)	(766,652)	(766,652)
Long-term debt	-	-	(677,389)	(677,389)	(677,389)
Foreign exchange forward contracts	(450)	-	-	(450)	(450)
	(450)	-	(1,444,041)	(1,444,491)	(1,444,491)
<b>Net financial assets (liabilities)</b>	<b>\$ (450)</b>	<b>\$ 604,599</b>	<b>\$ (1,444,041)</b>	<b>\$ (839,892)</b>	<b>\$ (839,892)</b>

  

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

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

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### Risk Management

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

#### (a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 33.7%, 28.3% and 14.6% of its production sales for the six months ending June 30, 2017 (six months ended June 30, 2016 – 34.6%, 27.6% and 15.0%). A substantial portion of the Company's accounts receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at June 30, 2017 are part of the normal payment pattern within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

The aging of trade receivables at the reporting date was as follows:

	June 30, 2017	December 31, 2016
0-60 days	\$ 544,783	\$ 526,483
61-90 days	14,400	16,540
Greater than 90 days	28,583	12,051
	\$ 587,766	\$ 555,074

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2017, the Company had cash of \$57,143 and banking facilities available as discussed in note 9. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

A summary of contractual maturities of long-term debt is provided in note 9.

#### (c) Interest rate risk

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

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

	Carrying amount	
	June 30, 2017	December 31, 2016
Variable rate instruments	\$ 602,107	\$ 631,879
Fixed rate instruments	75,282	89,524
	\$ 677,389	\$ 721,403

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,523 (three months ended June 30, 2016 - \$1,581) on the Company's interim consolidated financial results for the three months ended June 30, 2017 and \$3,084 for the six months ended June 30, 2017 (six months ended June 30, 2016 - \$3,082).

### (d) Currency risk

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

At June 30, 2017, the Company had committed to the following foreign exchange contracts:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Sell Mexican Peso	\$ 6,531	19.1400	2
Sell Euro	\$ 2,270	1.1348	1

  

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Mexican Peso	\$ 9,832	18.2640	2

The aggregate value of these forward contracts as at June 30, 2017 was a pre-tax loss of \$450 and was recorded in trade and other payables (December 31, 2016 - loss of \$208 and was recorded in trade and other payables).

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

June 30, 2017	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 311,785	€ 70,236	\$ 68,254 R\$	22,133 ¥	136,440
Trade and other payables	(348,601)	(79,799)	(133,860)	(23,806)	(93,261)
Long-term debt	(271,527)	(37,381)	-	(425)	-
	\$ (308,343)	€ (46,944)	\$ (65,606) R\$	(2,098) ¥	43,179

  

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

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The following summary illustrates the fluctuations in the exchange rates applied during the three and six months ended June 30, 2017 and 2016:

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	June 30, 2017	December 31, 2016
USD	1.3483	1.3009	1.3355	1.3453	1.2977	1.3427
EURO	1.4642	1.4634	1.4329	1.4920	1.4813	1.4169
PESO	0.0713	0.0730	0.0677	0.0755	0.0718	0.0651
BRL	0.4264	0.3610	0.4192	0.3559	0.3924	0.4125
CNY	0.1958	0.1999	0.1937	0.2065	0.1914	0.1930

### Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10% strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2017 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
USD	\$ (4,181)	\$ 1,155	\$ (7,069)	\$ (1,323)
EURO	(794)	(813)	(1,827)	(1,581)
BRL	330	183	696	372
CNY	106	-	166	51
	\$ (4,539)	\$ 525	\$ (8,034)	\$ (2,481)

A weakening of the Canadian dollar against the above currencies at June 30 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (e) Capital risk management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with complementary acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its equity, which is comprised of issued capital stock, contributed surplus, accumulated other comprehensive income and retained earnings (accumulated deficit), and debt.

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

In addition to debt and equity the Company may use operating leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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### 16. CONTINGENCIES

#### Contingencies

The Company has contingent liabilities relating to legal and tax proceedings arising in the normal course of its business. Known claims and litigation involving the Company or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks. Although the outcome of the proceedings in progress cannot be predicted, the Company does not believe they will have a material impact on the Company's consolidated financial position. However, new proceedings may be initiated against the Company as a result of facts or circumstances unknown at the date of this report or for which the risk cannot yet be determined or quantified. Such proceedings could have a significant adverse impact on the Company's financial results.

#### Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundacao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately \$82,648 (BRL \$210,623) including interest and penalties to June 30, 2017 (December 31, 2016 - \$82,453 or BRL 199,886). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling \$67,859 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

### 17. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At June 30, 2017, the amount of the program financing was \$58,925 (December 31, 2016 - \$65,468) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2016 or 2017 year-to-date. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.