

MANAGEMENT DISCUSSION AND ANALYSIS
OF OPERATING RESULTS AND FINANCIAL POSITION

For the three and six months ended June 30, 2017

The following management discussion and analysis (“MD&A”) was prepared as of August 8, 2017 and should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 (“interim consolidated financial statements”), as well as the Company’s audited consolidated financial statements and MD&A for the year ended December 31, 2016 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, 2016, 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 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

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

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

OVERALL RESULTS

The following tables set out certain highlights of the Company’s performance for the three and six months ended June 30, 2017 and 2016. Refer to the Company’s interim consolidated financial statements for the three and six months ended June 30, 2017 for a detailed account of the Company’s performance for the periods presented in the tables below.

	Three months ended		Three months ended			
	June 30, 2017		June 30, 2016		\$ Change	% Change
Sales	\$	972,772	\$	1,023,825	(51,053)	(5.0%)
Gross Margin		128,926		116,222	12,704	10.9%
Operating Income		66,958		18,729	48,229	257.5%
Net Income for the period		47,411		(27)	47,438	1757.0%
Net Income Attributable to Equity Holders of the Company	\$	47,346	\$	(42)	47,388	1128.3%
Net Earnings per Share – Basic and Diluted	\$	0.55	\$	-	0.55	-
<u>Non-IFRS Measures*</u>						
Adjusted Operating Income	\$	66,958	\$	56,992	9,966	17.5%
<i>% of sales</i>		6.9%		5.6%		
Adjusted EBITDA		108,707		94,649	14,058	14.9%
<i>% of sales</i>		11.2%		9.2%		
Adjusted Net Income Attributable to Equity Holders of the Company		47,346		37,663	9,683	25.7%
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.55	\$	0.44	0.11	25.0%

	Six months ended June 30, 2017		Six months ended June 30, 2016		\$ Change	% Change
Sales	\$	1,973,322	\$	2,063,275	(89,953)	(4.4%)
Gross Margin		247,141		228,040	19,101	8.4%
Operating Income		128,991		70,074	58,917	84.1%
Net Income for the period		90,878		32,504	58,374	179.6%
Net Income Attributable to Equity Holders of the Company	\$	90,948	\$	32,529	58,419	179.6%
Net Earnings per Share – Basic and Diluted	\$	1.05	\$	0.38	0.67	176.3%
Non-IFRS Measures*						
Adjusted Operating Income	\$	123,293	\$	108,337	14,956	13.8%
<i>% of sales</i>		6.2%		5.3%		
Adjusted EBITDA		203,254		183,671	19,583	10.7%
<i>% of sales</i>		10.3%		8.9%		
Adjusted Net Income Attributable to Equity Holders of the Company		86,077		70,234	15,843	22.6%
Adjusted Net Earnings per Share - Basic	\$	1.00	\$	0.81	0.19	23.5%
Adjusted Net Earnings per Share - Diluted	\$	0.99	\$	0.81	0.18	22.2%

***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 June 30, 2017		Three months ended June 30, 2016	
Net Income Attributable to Equity Holders of the Company	\$	47,346	\$	(42)
Unusual and Other Items (after-tax)*		-		37,705
Adjusted Net Income Attributable to Equity Holders of the Company	\$	47,346	\$	37,663

	Six months ended June 30, 2017		Six months ended June 30, 2016	
Net Income Attributable to Equity Holders of the Company	\$	90,948	\$	32,529
Unusual and Other Items (after-tax)*		(4,871)		37,705
Adjusted Net Income Attributable to Equity Holders of the Company	\$	86,077	\$	70,234

*Unusual and other items for the three and six months ended June 30, 2017 and 2016 are explained in the “Adjustments to Net Income” section of this MD&A

	Three months ended June 30, 2017	Three months ended June 30, 2016
Net Income (loss) Attributable to Equity Holders of the Company	\$ 47,346	\$ (42)
Non-controlling interest	65	15
Income tax expense	14,162	11,637
Other finance expense (income)	(112)	1,219
Finance expense	5,497	5,900
Unusual and Other Items (before-tax)*	-	38,263
Adjusted Operating Income	\$ 66,958	\$ 56,992
Depreciation of property, plant and equipment	37,719	33,601
Amortization of intangible assets	3,990	4,078
Loss/(gain) on disposal of property, plant and equipment	40	(22)
Adjusted EBITDA	\$ 108,707	\$ 94,649

	Six months ended June 30, 2017	Six months ended June 30, 2016
Net Income Attributable to Equity Holders of the Company	\$ 90,948	\$ 32,529
Non-controlling interest	(70)	(25)
Income tax expense	27,515	22,136
Other finance expense (income)	(743)	3,340
Finance expense	11,341	12,094
Unusual and Other Items (before-tax)*	(5,698)	38,263
Adjusted Operating Income	\$ 123,293	\$ 108,337
Depreciation of property, plant and equipment	72,528	67,223
Amortization of intangible assets	7,726	8,082
Loss/(gain) on disposal of property, plant and equipment	(293)	29
Adjusted EBITDA	\$ 203,254	\$ 183,671

*Unusual and other items for the three and six months ended June 30, 2017 and 2016 are explained in the "Adjustments to Net Income" section of this MD&A

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

SALES

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	Three months ended June 30, 2017	Three months ended June 30, 2016	\$ Change	% Change
North America	\$ 789,055	\$ 836,774	(47,719)	(5.7%)
Europe	155,620	168,249	(12,629)	(7.5%)
Rest of the World	32,767	22,312	10,455	46.9%
Eliminations	(4,670)	(3,510)	(1,160)	33.0%
Total Sales	\$ 972,772	\$ 1,023,825	(51,053)	(5.0%)

The Company's consolidated sales for the second quarter of 2017 decreased by \$51.0 million or 5.0% to \$972.8 million as compared to \$1,023.8 million for the second quarter of 2016. The total decrease in sales was driven by decreases in the North America and Europe operating segments partially offset by an increase in sales in the Rest of the World.

Sales for the second quarter of 2017 in the Company's North America operating segment decreased by \$47.7 million or 5.7% to \$789.1 million from \$836.8 million for the second quarter of 2016. The decrease was due to a \$23.2 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer, and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, customer production of which ended at the end of 2016, Ford Fusion, and other platforms late in their product life cycle such as the old GM Equinox/Terrain, and programs that ended production during or subsequent to the second quarter of 2016. These negative factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2017 of approximately \$23.4 million as compared to the second quarter of 2016; higher year-over-year production volumes on certain light vehicle platforms such as the Ford Escape and GM Pick-up truck/SUV platform; and the launch of new programs during or subsequent to the second quarter of 2016 including the GM Bolt and next generation GM Equinox/Terrain, which is set to ramp up over the course of 2017 as the old model ramps down.

Sales for the second quarter of 2017 in the Company's Europe operating segment decreased by \$12.6 million or 7.5% to \$155.6 million from \$168.2 million for the second quarter of 2016. The decrease can be attributed to a \$6.8 million decrease in tooling sales and generally lower year-over-year production volumes in the Company's operating facility in Spain; partially offset by a \$0.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2016.

Sales for the second quarter of 2017 in the Company's Rest of the World operating segment increased by \$10.5 million or 46.9% to \$32.8 million from \$22.3 million in the second quarter of 2016. The increase was mainly due to a year-over-year increase in production sales in the Company's operations in China due in large part to a year-over-year increase in production volumes on one of its key platforms which was down for seven weeks during the second quarter of 2016 as a result of an unplanned OEM shutdown; higher year-over-year production sales in the Company's operating facility in Brazil; and a \$1.3 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2016. These positive factors were partially offset by a \$2.9 million decrease in tooling sales.

Overall tooling sales decreased by \$32.9 million to \$39.3 million for the second quarter of 2017 from \$72.2 million for the second quarter of 2016.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

		Six months ended June 30, 2017	Six months ended June 30, 2016	\$ Change	% Change
North America	\$	1,592,039	\$ 1,680,084	(88,045)	(5.2%)
Europe		327,940	332,978	(5,038)	(1.5%)
Rest of the World		59,844	57,105	2,739	4.8%
Eliminations		(6,501)	(6,892)	391	(5.7%)
Total Sales	\$	1,973,322	\$ 2,063,275	(89,953)	(4.4%)

The Company's consolidated sales for the six months ended June 30, 2017 decreased by \$90.0 million or 4.4% to \$1,973.3 million as compared to \$2,063.3 million for the six months ended June 30, 2016. The total decrease in sales was driven by decreases in the Company's North America and Europe operating segments, partially offset by a year-over-year increase in sales in the Rest of the World.

Sales for the six months ended June 30, 2017 in the Company's North America operating segment decreased by \$88.1 million or 5.2% to \$1,592.0 million from \$1,680.1 million for the six months ended June 30, 2016. The decrease was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2017 of approximately \$9.8 million as compared to the comparative period of 2016; and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler 200, customer production of which ended at the end of 2016, Ford Fusion, Chevrolet Malibu, and other platforms late in their product life cycle such as the old GM Equinox/Terrain, and programs that ended production during or subsequent to the six months ended June 30, 2016. These negative factors were partially offset by a year-over-year increase in tooling sales of \$3.3 million; an increase in production volumes on the Chrysler V6 Pentastar engine block program which was down during the first quarter of 2016 for re-tooling; higher year-over-year volumes on certain light vehicle platforms such as the Ford Escape, GM Pick-up truck/SUV platform and other GM programs previously impacted by unplanned OEM shutdowns during the second quarter of 2016 because of an earthquake in Japan which disrupted the supply chain; and the launch of new programs during or subsequent to the six months ended June 20, 2016 including the GM Bolt and next generation GM Equinox/Terrain, which is set to ramp up over the course of 2017 as the old model ramps down.

Sales for the six months ended June 30, 2017 in the Company's Europe operating segment decreased by \$5.1 million or 1.5% to \$327.9 million from \$333.0 million for the six months ended June 30, 2016. The decrease can be attributed to the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2017 of approximately \$12.7 million as compared to the comparable period of 2016, partially offset by slightly higher production volumes in the Company's Martinrea Honsel German operations and a \$3.3 million increase in tooling sales.

Sales for the six months ended June 30, 2017 in the Company's Rest of the World operating segment increased by \$2.7 million or 4.8% to \$59.8 million from \$57.1 million for the six months ended June 30, 2016. The increase was mainly due to a year-over-year increase in production sales in the Company's operations in China due in large part to a year-over-year increase in production volumes on one of its key platforms which was down for seven weeks during the second quarter of 2016 as a result of an unplanned OEM shutdown; higher year-over-year production sales in the Company's operating facility in Brazil; and a \$0.5 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the six months ended June 30, of 2016. These positive factors were partially offset by a \$10.6 million decrease in tooling sales.

Overall tooling sales decreased by \$4.0 million to \$103.5 million for the six months ended June 30, 2017 from \$107.5 million for the six months ended June 30, 2016.

GROSS MARGIN

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	Three months ended June 30, 2017	Three months ended June 30, 2016	\$ Change	% Change
Gross margin	\$ 128,926	\$ 116,222	12,704	10.9%
% of sales	13.3%	11.4%		

The gross margin percentage for the second quarter of 2017 of 13.3% increased as a percentage of sales by 1.9% as compared to the gross margin percentage for the second quarter of 2016 of 11.4%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2016; and
- a decrease in tooling sales which typically earn low or no margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in the Company's China operations in preparation of upcoming new programs.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

	Six months ended June 30, 2017	Six months ended June 30, 2016	\$ Change	% Change
Gross margin	\$ 247,141	\$ 228,040	19,101	8.4%
% of sales	12.5%	11.1%		

The gross margin percentage for the six months ended June 30, 2017 of 12.5% increased as a percentage of sales by 1.4% as compared to the gross margin percentage for the six months ended June 30, 2016 of 11.1%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2016; and
- a slight decrease in tooling sales which typically earn low or no margins for the Company.

These positive factors were partially offset by operational inefficiencies and other costs at certain other facilities including upfront costs incurred in the Company's China operations in preparation of upcoming new programs.

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

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

		Three months ended June 30, 2017		Three months ended June 30, 2016	\$ Change	% Change
Selling, general & administrative	\$	52,539	\$	50,661	1,878	3.7%
% of sales		5.4%		4.9%		

SG&A expense for the second quarter of 2017 increased by \$1.9 million to \$52.5 million as compared to \$50.7 million for the second quarter of 2016. SG&A expense as a percentage of sales increased year-over-year to 5.4% for the second quarter of 2017 compared to 4.9% for the second quarter of 2016. The increase was generally due to approximately \$2.2 million in litigation costs 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.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

		Six months ended June 30, 2017		Six months ended June 30, 2016	\$ Change	% Change
Selling, general & administrative	\$	105,138	\$	102,115	3,023	3.0%
% of sales		5.3%		4.9%		

SG&A expense for the six months ended June 30, 2017 increased by \$3.0 million to \$105.1 million as compared to \$102.1 million for the six months ended June 30, 2016. SG&A expense as a percentage of sales increased year-over-year to 5.3% for the six months ended June 30, 2017 compared to 4.9% for the six months ended June 30, 2016. The increase can be attributed to approximately \$4.2 million in litigation costs 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.

SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

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

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

		Three months ended June 30, 2017		Three months ended June 30, 2016	\$ Change	% Change
Depreciation of PP&E (production)	\$	35,307	\$	31,501	3,806	12.1%
Depreciation of PP&E (non-production)		2,412		2,100	312	14.9%
Amortization of customer contracts and relationships		540		588	(48)	(8.2%)
Amortization of development costs		3,450		3,490	(40)	(1.1%)
Total depreciation and amortization	\$	41,709	\$	37,679	4,030	10.7%

Total depreciation and amortization expense for the second quarter of 2017 increased by \$4.0 million to \$41.7 million as compared to \$37.7 million for the second quarter of 2016. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base resulting from equipment purchases to support new and replacement business. The year-over-year increase in total depreciation and amortization expense was partially offset by a lower depreciation and amortization expense recognized at an operating facility in Detroit, Michigan due to certain assets having been impaired during the second quarter of 2016.

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

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-over to 3.6% for the second quarter of 2017 from 3.1% for the second quarter of 2016 due to lower year-over-year sales, as previously discussed, and recent investments put into production.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

	Six months ended June 30, 2017	Six months ended June 30, 2016	\$ Change	% Change
Depreciation of PP&E (production)	\$ 67,857	\$ 62,919	4,938	7.8%
Depreciation of PP&E (non-production)	4,671	4,304	367	8.5%
Amortization of customer contracts and relationships	1,080	1,123	(43)	(3.8%)
Amortization of development costs	6,646	6,959	(313)	(4.5%)
Total depreciation and amortization	\$ 80,254	\$ 75,305	4,949	6.6%

Total depreciation and amortization expense for the six months ended June 30, 2017 increased by \$4.9 million to \$80.3 million as compared to \$75.3 million for the six months ended June 30, 2016. The increase in total depreciation and amortization expense was primarily due to an increase in depreciation expense on a larger PP&E base resulting from equipment purchases to support new and replacement business. The year-over-year increase in total depreciation and amortization expense was partially offset by lower depreciation and amortization expense recognized at an operating facility in Detroit, Michigan due to certain assets having been impaired during the second quarter of 2016.

Depreciation of PP&E (production) expense as a percentage of sales increased year-over-year to 3.4% for the six months ended June 30, 2017 compared to 3.0% for the six months ended June 30, 2016 due to lower year-over-year sales, as previously discussed, and recent investments put into production.

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

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

TABLE A

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	For the three months ended June 30, 2017 (a)	For the three months ended June 30, 2016 (b)	(a)-(b) Change
NET INCOME (A)	\$47,346	(\$42)	\$47,388
Add Back - Unusual and Other Items:			
Impairment of assets (1)	-	34,579	(34,579)
Restructuring costs (2)	-	3,684	(3,684)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	-	\$38,263	(\$38,263)
Tax impact of above items (3)	-	(558)	558
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	-	37,705	(\$37,705)
ADJUSTED NET INCOME (A + B)	\$47,346	\$37,663	\$9,683
Number of Shares Outstanding – Basic ('000)	86,512	86,385	
Adjusted Basic Net Earnings Per Share	\$0.55	\$0.44	
Number of Shares Outstanding – Diluted ('000)	86,786	86,578	
Adjusted Diluted Net Earnings Per Share	\$0.55	\$0.44	

TABLE B*Six months ended June 30, 2017 to six months ended June 30, 2016 comparison*

	For the six months ended June 30, 2017 (a)	For the six months ended June 30, 2016 (b)	(a)-(b) Change
NET INCOME (A)	\$90,948	\$32,529	\$58,419
Add Back - Unusual and Other Items:			
Impairment of assets (1)	-	34,579	(34,579)
Restructuring costs (2)	-	3,684	(3,684)
Gain on sale of land and building (4)	(5,698)	-	(5,698)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	(\$5,698)	\$38,263	(\$43,961)
Tax impact of above items (3)	827	(558)	1,385
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	(\$4,871)	\$37,705	(\$42,576)
ADJUSTED NET INCOME (A + B)	\$86,077	\$70,234	\$15,843
Number of Shares Outstanding – Basic ('000)	86,502	86,385	
Adjusted Basic Net Earnings Per Share	\$1.00	\$0.81	
Number of Shares Outstanding – Diluted ('000)	86,714	86,603	
Adjusted Diluted Net Earnings Per Share	\$0.99	\$0.81	

(1) Impairment of assets

During the second quarter of 2016, the Company recorded impairment charges on PP&E, intangible assets and inventories totaling \$34.6 million (US\$26.6 million) related to an operating facility in Detroit, Michigan included in the North America operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This 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.

(2) Restructuring costs

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

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

(3) Tax impact of above items (For the three and six months ended June 30, 2016)

The tax impact of the adjustments recorded to income during the three and six months ended June 30, 2016 of \$0.6 million represents solely the corresponding tax effect on the \$1.8 million in restructuring costs incurred in Meschede, Germany. The \$34.6 million in impairment charges and \$1.9 million in restructuring costs related to the closure of the operating facility in Detroit, Michigan, as described above, resulted in tax losses that were not benefitted and, as a result, not recognized as a deferred tax asset. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of taxable temporary differences; however, forming a conclusion on the realization of deferred tax assets requires judgment when there are recent tax losses.

(4) Gain on sale of land and building

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

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

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	Three months ended June 30, 2017		Three months ended June 30, 2016		\$ Change	% Change
Net Income (loss)	\$	47,346	\$	(42)	47,388	1128.3%
Adjusted Net Income	\$	47,346	\$	37,663	9,683	25.7%
Net Earnings per Share						
Basic and Diluted	\$	0.55	\$	-		
Adjusted Net Earnings per Share						
Basic and Diluted	\$	0.55	\$	0.44		

Net Income, before adjustments, for the second quarter of 2017 increased by \$47.4 million from nil for the second quarter of 2016 largely as a result of the unusual and other items incurred during the second quarter of 2016 as explained in Table A under “Adjustments to Net Income”. Excluding these unusual and other items, net income for the second quarter of 2017 increased to \$47.3 million or \$0.55 per share, on a basic and diluted basis, from \$37.7 million or \$0.44 per share, on a basic and diluted basis, for the second quarter of 2016.

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

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2016;
- a net foreign exchange gain of \$0.05 million for the second quarter of 2017 compared to a net foreign exchange loss of \$1.3 million for the second quarter of 2016;
- a slight year-over-year decrease in finance expense on the Company’s bank debt and equipment loans; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.0% for the second quarter of 2017 compared to 24.5% for the second quarter of 2016).

These factors were partially offset by the following:

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

Three months ended June 30, 2017 actual to guidance comparison:

On May 1, 2017, the Company provided the following guidance for the second quarter of 2017:

	Guidance		Actual	
Production sales (in millions)	\$	920 - 960	\$	933
Adjusted Net Earnings per Share				
Basic & Diluted	\$	0.49 - 0.53	\$	0.55

For the second quarter of 2017, while production sales of \$933 million were within the published sales guidance range, Adjusted Net Earnings per Share of \$0.55 exceeded the published earnings guidance range due generally to better than expected financial performance at certain operating facilities and a lower effective tax rate.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

	Six months ended June 30, 2017		Six months ended June 30, 2016		\$ Change	% Change
Net Income	\$	90,948	\$	32,529	58,419	179.6%
Adjusted Net Income	\$	86,077	\$	70,234	15,843	22.6%
Net Earnings per Share						
Basic and Diluted	\$	1.05	\$	0.38		
Adjusted Net Earnings per Share						
Basic	\$	1.00	\$	0.81		
Diluted	\$	0.99	\$	0.81		

Net Income, before adjustments, for the six months ended June 30, 2017 increased by \$58.4 million to \$90.9 million from \$32.5 million for the six months ended June 30, 2016 largely as a result of the impact of the unusual and other items incurred during the six months ended June 30, 2017 and 2016 as explained in Table B under "Adjustments to Net Income". Excluding these unusual and other items, net income for the six months ended June 30, 2017 increased to \$86.1 million or \$1.00 per share on a basic basis, and \$0.99 per share on a diluted basis, from \$70.2 million or \$0.81 per share, on a basic and diluted basis, for the six months ended June 30, 2016.

Adjusted Net Income for the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, was positively impacted by the following:

- higher gross profit despite an overall decrease in year-over-year sales as previously explained;
- productivity and efficiency improvements at certain operating facilities;
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2016;
- a net foreign exchange gain of \$0.6 million for the six months ended June 30, 2017 compared to a net foreign exchange loss of \$3.4 million for the six months ended June 30, 2016;
- a slight year-over-year decrease in finance expense on the Company's bank debt and equipment loans; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (23.7% for the six months ended June 30, 2017 compared to 24.5% for the six months ended June 30, 2016).

These factors were partially offset by the following:

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

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	Three months ended June 30, 2017		Three months ended June 30, 2016		\$ Change	% Change
Additions to PP&E	\$	45,091	\$	50,161	(5,070)	(10.1%)

Additions to PP&E decreased by \$5.1 million to \$45.1 million in the second quarter of 2017 from \$50.2 million for the second quarter of 2016 due generally to the timing of expenditures. Additions as a percentage of sales decreased slightly year-over-year to 4.6% for the second quarter of 2017 compared to 4.9% for the comparative period of 2016. The Company continues to make investments in the business in particular at new greenfield operating facilities as these new plants execute on their backlogs of new business.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

	Six months ended June 30, 2017		Six months ended June 30, 2016		\$ Change	% Change
Additions to PP&E	\$	111,732	\$	92,994	18,738	20.1%

Additions to PP&E increased by \$18.7 million year-over-year to \$111.7 million for the six months ended June 30, 2017 compared to \$93.0 million for the six months ended June 30, 2016 due generally to the timing of expenditures. Additions as a percentage of sales increased year-over-year to 5.7% for the six months ended June 30, 2017 compared to 4.5% for the six months ended June 30, 2016. While capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in the first six months of 2017 continued to be for manufacturing equipment for new and replacement programs that recently launched or will be launching over the next 24 months.

SEGMENT ANALYSIS

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

Three months ended June 30, 2017 to three months ended June 30, 2016 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended June 30, 2017	Three months ended June 30, 2016	Three months ended June 30, 2017	Three months ended June 30, 2016
North America	\$ 789,055	\$ 836,774	\$ 60,358	\$ 46,816
Europe	155,620	168,249	9,279	11,454
Rest of the World	32,767	22,312	(2,679)	(1,278)
Eliminations	(4,670)	(3,510)	-	-
Adjusted Operating Income	-	-	\$ 66,958	\$ 56,992
Unusual and Other Items*	-	-	-	(38,263)
Total	\$ 972,772	\$ 1,023,825	\$ 66,958	\$ 18,729

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

North America

Adjusted Operating Income in North America increased by \$13.6 million to \$60.4 million for the second quarter of 2017 from \$46.8 million for the second quarter of 2016 despite lower sales as previously discussed. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2016; partially offset by operational inefficiencies and other costs at certain other facilities.

Europe

Adjusted Operating Income in Europe decreased by \$2.2 million to \$9.3 million for the second quarter of 2017 from \$11.5 million for the second quarter of 2016 due in large part to a \$12.6 million year-over-year decrease in sales. As noted previously, the year-over-year decrease in sales can be attributed to a \$6.8 million decrease in tooling sales and generally lower year-over-year production volumes in the Company's operating facility in Spain; partially offset by a \$0.1 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2016.

Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year despite higher year-over-year sales as previously discussed. The decrease in operating results was due to \$2.2 million in litigation costs 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 and upfront costs incurred in the Company's China operations in preparation of upcoming new programs.

Six months ended June 30, 2017 to six months ended June 30, 2016 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2017	Six months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
North America	\$ 1,592,039	\$ 1,680,084	\$ 107,813	\$ 90,420
Europe	327,940	332,978	21,858	20,329
Rest of the World	59,844	57,105	(6,378)	(2,412)
Eliminations	(6,501)	(6,892)	-	-
Adjusted Operating Income	-	-	\$ 123,293	\$ 108,337
Unusual and Other Items*	-	-	5,698	(38,263)
Total	\$ 1,973,322	\$ 2,063,275	\$ 128,991	\$ 70,074

* Operating income for the operating segments has been adjusted for unusual and other items. The \$5.7 million of unusual and other items for the six months ended June 30, 2017 was recognized in North America. Of the \$38.3 million of unusual and other items incurred during the six months ended June 30, 2016, \$36.5 million was incurred in North America and \$1.8 million in Europe. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

North America

Adjusted Operating Income in North America increased by \$17.4 million to \$107.8 million for the six months ended June 30, 2017 from \$90.4 million for the six months ended June 30, 2016. Adjusted Operating Income in North America was positively impacted by productivity and efficiency improvements at certain operating facilities and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2016; partially offset by operational inefficiencies and other costs at certain facilities.

Europe

Adjusted Operating Income in Europe increased by \$1.6 million to \$21.9 million for the six months ended June 30, 2017 from \$20.3 million for the six months ended June 30, 2016 despite lower sales, as previously discussed, due generally to sales mix and productivity and efficiency improvements at certain operating facilities.

Rest of the World

The operating results for the Rest of the World operating segment decreased year-over-year despite slightly higher year-over-year sales as previously discussed. The decrease in operating results was due to \$4.2 million in litigation costs 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 and upfront costs incurred in the Company's China operations in preparation of upcoming new programs.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	972,772	1,000,550	990,407	914,725	1,023,825	1,039,450	1,035,314	929,880
Gross Margin	128,926	118,215	104,312	99,698	116,222	111,818	103,829	96,385
Net Income for the period	47,411	43,467	30,630	28,827	(27)	32,531	27,826	15,232
Net Income attributable to equity holders of the Company	47,346	43,602	30,753	29,098	(42)	32,571	27,731	15,469
Adjusted Net Income attributable to equity holders of the Company	47,346	38,731	30,753	29,098	37,663	32,571	29,059	25,899
Basic and Diluted Net Earnings per Share	0.55	0.50	0.36	0.34	-	0.38	0.32	0.18
Adjusted Basic and Diluted Net Earnings per Share	0.55	0.45	0.36	0.34	0.44	0.38	0.34	0.30

***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 2016 and 2015 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 June 30, 2017, the Company had total equity attributable to equity holders of the Company of \$900.1 million (December 31, 2016 - \$830.2 million). As at June 30, 2017, the Company's ratio of current assets to current liabilities was 1.3:1 (December 31, 2016 - 1.3:1). The Company's current working capital level of \$208.2 million at June 30, 2017, up from \$198.0 million at December 31, 2016 due in large part to the timing of cash inflows and outflows connected with tooling related accounts, and credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset based financing.

CASH FLOWS

	Three months ended June 30, 2017	Three months ended June 30, 2016	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 112,372	\$ 92,152	20,220	21.9%
Change in non-cash working capital items	(27,570)	15,360	(42,930)	(279.5%)
Interest paid	84,802	107,512	(22,710)	(21.1%)
Income taxes paid	(4,844)	(5,112)	268	(5.2%)
	(9,205)	(18,222)	9,017	(49.5%)
Cash provided by operating activities	70,753	84,178	(13,425)	(15.9%)
Cash provided (used in) by financing activities	(10,222)	6,961	(17,183)	(246.8%)
Cash used in investing activities	(58,644)	(46,895)	(11,749)	25.1%
Effect of foreign exchange rate changes on cash and cash equivalents	(793)	(1,790)	997	(55.7%)
Increase in cash and cash equivalents	\$ 1,094	\$ 42,454	(41,360)	(97.4%)

Cash provided by operating activities during the second quarter of 2017 was \$70.8 million, compared to cash provided by operating activities of \$84.2 million in the corresponding period of 2016. The components for the second quarter of 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$112.4 million;
- working capital items use of cash of \$27.6 million comprised of an increase in inventories of \$18.2 million, an increase in prepaid expenses and deposits of \$1.8 million, and a decrease in trade, other payables and provisions of \$22.1 million; partially offset by a decrease in trade and other receivables of \$14.5 million;
- interest paid (excluding capitalized interest) of \$4.8 million; and
- income taxes paid of \$9.2 million.

Cash used in financing activities during the second quarter of 2017 was \$10.2 million, compared to cash provided by financing activities of \$7.0 million in the corresponding period in 2016, as a result of repayments on the Company's asset based financing arrangements of \$7.6 million and \$2.6 million in dividends paid.

Cash used in investing activities during the second quarter of 2017 was \$58.6 million, compared to \$46.9 million in the corresponding period in 2016. The components for the second quarter of 2017 primarily include the following:

- cash additions to PP&E of \$56.2 million;
- capitalized development costs relating to upcoming new program launches of \$3.8 million; partially offset by
- proceeds from the disposal of PP&E of \$0.2 million and the upfront recovery of development costs incurred of \$1.2 million.

Taking into account the opening cash balance of \$56.0 million at the beginning of the second quarter of 2017, and the activities described above, the cash and cash equivalents balance at June 30, 2017 was \$57.1 million.

	Six months ended June 30, 2017	Six months ended June 30, 2016	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 206,626	\$ 179,210	27,416	15.3%
Change in non-cash working capital items	13,786	(50,249)	64,035	(127.4%)
Interest paid	(9,964)	(10,000)	36	(0.4%)
Income taxes paid	(32,657)	(31,268)	(1,389)	4.4%
Cash provided by operating activities	177,791	87,693	90,098	102.7%
Cash provided by (used in) financing activities	(39,570)	61,179	(100,749)	(164.7%)
Cash used in investing activities	(139,176)	(109,027)	(30,149)	27.7%
Effect of foreign exchange rate changes on cash and cash equivalents	(1,067)	(3,907)	2,840	(72.7%)
Increase (Decrease) in cash and cash equivalents	\$ (2,022)	\$ 35,938	(37,960)	(105.6%)

Cash provided by operating activities during the six months ended June 30, 2017 was \$177.8 million, compared to cash provided by operating activities of \$87.7 million in the corresponding period of 2016. The components for the six months ended June 30, 2017 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$206.6 million;
- working capital items source of cash of \$13.8 million comprised of an increase in trade, other payables and provisions of \$97.5 million due predominantly to the timing of tooling and capital payable balances and seasonally higher production levels during the first half of the year; partially offset by increases in trade and other receivables of \$43.1 million, inventories of \$36.8 million and prepaid expenses and deposits of \$3.9 million;
- interest paid (excluding capitalized interest) of \$10.0 million; and
- income taxes paid of \$32.7 million.

Cash used by financing activities during the six months ended June 30, 2017 was \$39.6 million, compared to cash provided by financing activities of \$61.2 million in the corresponding period in 2016, as a result of repayments on the Company's revolving banking facility and asset based financing arrangements of \$34.6 million and \$5.2 million in dividends paid; partially offset by \$0.2 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the six months ended June 30, 2017 was \$139.2 million, compared to \$109.0 million in the corresponding period in 2016. The components for the six months ended June 30, 2017 primarily include the following:

- cash additions to PP&E of \$143.6 million;
- capitalized development costs relating to upcoming new program launches of \$7.3 million; partially offset by
- the upfront recovery of development costs incurred of \$1.2 million; and
- proceeds from the disposal of land and building of \$9.9 million and proceeds from the disposal of other PP&E of \$0.6 million.

Taking into account the opening cash balance of \$59.2 million at the beginning of 2017, and the activities described above, the cash and cash equivalents balance at June 30, 2017 was \$57.1 million.

Financing

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

- available revolving credit lines of \$350 million and US \$400 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$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 had drawn \$273.0 million (December 31, 2016 - \$273.0 million) on the Canadian revolving credit line and US\$256.0 million (December 31, 2016 – US\$270.0 million) on the U.S. revolving credit line.

Net debt (i.e. long-term debt less cash on hand) decreased by \$42.0 million from \$662.2 million at December 31, 2016 to \$620.2 million at June 30, 2017. The Company's net debt to Adjusted EBITDA (on a trailing twelve months basis) leverage ratio improved to 1.68x at the end of the second quarter of 2017, from 1.89x at the end of 2016.

The Company was in compliance with its debt covenants as at June 30, 2017.

Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends are to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter, the most recent quarterly dividend being paid on July 17, 2017. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In addition, the Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2017, the amount of off-balance sheet program financing was \$58.9 million (December 31, 2016 - \$65.5 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

RISKS AND UNCERTAINTIES

The reader is referred to the detailed discussion on Industry Highlights and Trends and Risks and Uncertainties as outlined in the Company's Annual Information Form dated March 2, 2017 and available through SEDAR at www.sedar.com which are incorporated herein by reference. 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.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 8, 2017, the Company had 86,512,167 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 8, 2017, options to acquire 2,335,617 common shares were outstanding.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended June 30, 2017, there has been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2016.

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 June 30, 2017, the amount of the off balance sheet program financing was \$58.9 million (December 31, 2016 - \$65.5 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 six to eighteen months.

Hedge Accounting

The Company uses some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments made in certain US operations. At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment that is being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed.

At inception and at every quarter end thereafter, the Company formally assesses the effectiveness of these net investment hedges. The change in fair value of the hedging US debt is recorded, to the extent effective, directly in Other Comprehensive Income (Loss). These amounts will be recognized in earnings as and when the corresponding Accumulated Other Comprehensive Income (Loss) from the hedged foreign operations is recognized in net earnings.

Financial Instruments

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

At 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).

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Included in the Company's 2016 annual consolidated financial statements, as well as in the Company's 2016 annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the three and six months ended June 30, 2017 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2016 annual MD&A, except for the following new accounting standards recently adopted.

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.

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.

FORWARD-LOOKING INFORMATION

This MD&A and the documents incorporated by reference therein contain forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to the growth of the Company and pursuit of its strategies, the ramping up and launching of new programs, investments in its business, the opportunity to increase sales, the future amount and type of restructuring expenses to be expensed, the financing of future capital expenditures, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity and ability to deal with present economic conditions, growth of future sales or production volumes and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2016 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;
- outsourcing and in-sourcing trends;

- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans; and
- the cost of post-employment benefits
- impairment charges; and
- cyber security threats.

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.