



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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

# Martinrea International Inc.

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# Martinrea International Inc.

## Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	September 30, 2018	December 31, 2017
<b>ASSETS</b>			
Cash and cash equivalents		\$ 83,694	\$ 71,193
Trade and other receivables	2	613,807	556,049
Inventories	3	466,953	376,972
Prepaid expenses and deposits		20,764	15,504
Income taxes recoverable		12,329	12,979
<b>TOTAL CURRENT ASSETS</b>		<b>1,197,547</b>	<b>1,032,697</b>
Property, plant and equipment	4	1,361,932	1,282,624
Deferred income tax assets		180,532	142,173
Intangible assets	5	67,155	68,414
Other assets	6	12,116	15,265
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,621,735</b>	<b>1,508,476</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,819,282</b>	<b>\$ 2,541,173</b>
<b>LIABILITIES</b>			
Trade and other payables	7	\$ 825,878	\$ 741,549
Provisions	8	4,639	5,048
Income taxes payable		49,427	34,429
Current portion of long-term debt	9	16,202	24,795
<b>TOTAL CURRENT LIABILITIES</b>		<b>896,146</b>	<b>805,821</b>
Long-term debt	9	684,378	629,222
Pension and other post-retirement benefits		62,777	65,258
Deferred income tax liabilities		73,738	82,373
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>820,893</b>	<b>776,853</b>
<b>TOTAL LIABILITIES</b>		<b>1,717,039</b>	<b>1,582,674</b>
<b>EQUITY</b>			
Capital stock	10	710,549	713,425
Contributed surplus		41,677	41,981
Accumulated other comprehensive income		105,533	94,268
Retained earnings		244,484	108,825
<b>TOTAL EQUITY</b>		<b>1,102,243</b>	<b>958,499</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,819,282</b>	<b>\$ 2,541,173</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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>SALES</b>		\$ 851,136	\$ 838,535	\$ 2,736,746	\$ 2,811,857
Cost of sales (excluding depreciation of property, plant and equipment)		(684,888)	(690,629)	(2,202,537)	(2,348,953)
Depreciation of property, plant and equipment (production)		(39,118)	(34,488)	(112,615)	(102,345)
Total cost of sales		(724,006)	(725,117)	(2,315,152)	(2,451,298)
<b>GROSS MARGIN</b>		127,130	113,418	421,594	360,559
Research and development costs		(6,228)	(6,745)	(19,375)	(19,997)
Selling, general and administrative		(59,088)	(53,864)	(173,950)	(159,002)
Depreciation of property, plant and equipment (non-production)		(2,669)	(2,385)	(7,730)	(7,056)
Amortization of customer contracts and relationships		(537)	(552)	(1,605)	(1,632)
Gain (loss) on disposal of property, plant and equipment		(159)	234	(369)	527
Gain on sale of land and building	4	-	-	-	5,698
<b>OPERATING INCOME</b>		58,449	50,106	218,565	179,097
Finance expense		(6,937)	(5,451)	(20,345)	(16,792)
Other finance income (expense)	13	(2,895)	1,715	(1,899)	2,458
<b>INCOME BEFORE INCOME TAXES</b>		48,617	46,370	196,321	164,763
Income tax expense	11	(12,236)	(10,348)	(48,254)	(37,863)
<b>NET INCOME FOR THE PERIOD</b>		\$ 36,381	\$ 36,022	\$ 148,067	\$ 126,900
Non-controlling interest		-	207	-	277
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 36,381	\$ 36,229	\$ 148,067	\$ 127,177
Basic earnings per share	12	\$ 0.42	\$ 0.42	\$ 1.71	\$ 1.47
Diluted earnings per share	12	\$ 0.42	\$ 0.42	\$ 1.70	\$ 1.47

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>NET INCOME FOR THE PERIOD</b>	\$ 36,381	\$ 36,022	\$ 148,067	\$ 126,900
<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	(26,682)	(27,752)	13,143	(40,106)
Change in fair value of investments	(1,552)	3,336	(2,091)	3,336
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain in fair value of financial instruments	2,378	-	403	-
Reclassification of gains to net income	(219)	-	(190)	-
<b>Items that will not be reclassified to net income</b>				
Remeasurement of defined benefit plans	(595)	775	1,650	(2,954)
<b>Other comprehensive income (loss), net of tax</b>	<b>(26,670)</b>	<b>(23,641)</b>	<b>12,915</b>	<b>(39,724)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 9,711</b>	<b>\$ 12,381</b>	<b>\$ 160,982</b>	<b>\$ 87,176</b>
<b>Attributable to:</b>				
Equity holders of the Company	9,711	12,588	160,982	87,453
Non-controlling interest	-	(207)	-	(277)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 9,711</b>	<b>\$ 12,381</b>	<b>\$ 160,982</b>	<b>\$ 87,176</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	Accumulated other comprehensive income	Retained earnings/ (accumulated deficit)	Total	Non- controlling interest	Total equity
<b>BALANCE AT DECEMBER 31, 2016</b>	\$ 710,510	\$ 42,660	\$ 117,048	\$ (40,020)	\$ 830,198	\$ (522)	\$ 829,676
Net income for the period	-	-	-	127,177	127,177	(277)	126,900
Change in non-controlling interest	-	-	-	(1,849)	(1,849)	799	(1,050)
Compensation expense related to stock options	-	111	-	-	111	-	111
Dividends (\$0.09 per share)	-	-	-	(7,788)	(7,788)	-	(7,788)
Exercise of employee stock options	284	(82)	-	-	202	-	202
<u>Other comprehensive income (loss), net of tax</u>							
Remeasurement of defined benefit plans	-	-	-	(2,954)	(2,954)	-	(2,954)
Foreign currency translation differences	-	-	(40,106)	-	(40,106)	-	(40,106)
Change in fair value of investments	-	-	3,336	-	3,336	-	3,336
<b>BALANCE AT SEPTEMBER 30, 2017</b>	710,794	42,689	80,278	74,566	908,327	-	908,327
Net income for the period	-	-	-	32,366	32,366	-	32,366
Compensation expense related to stock options	-	12	-	-	12	-	12
Dividends (\$0.03 per share)	-	-	-	(2,600)	(2,600)	-	(2,600)
Exercise of employee stock options	2,631	(720)	-	-	1,911	-	1,911
<u>Other comprehensive income (loss), net of tax</u>							
Remeasurement of defined benefit plans	-	-	-	4,493	4,493	-	4,493
Foreign currency translation differences	-	-	9,369	-	9,369	-	9,369
Change in fair value of investments	-	-	4,621	-	4,621	-	4,621
<b>BALANCE AT DECEMBER 31, 2017</b>	713,425	41,981	94,268	108,825	958,499	-	958,499
Net income for the period	-	-	-	148,067	148,067	-	148,067
Compensation expense related to stock options	-	283	-	-	283	-	283
Dividends (\$0.12 per share)	-	-	-	(10,396)	(10,396)	-	(10,396)
Exercise of employee stock options	2,422	(587)	-	-	1,835	-	1,835
Repurchase of common shares	(5,298)	-	-	(3,662)	(8,960)	-	(8,960)
<u>Other comprehensive income (loss), net of tax</u>							
Remeasurement of defined benefit plans	-	-	-	1,650	1,650	-	1,650
Foreign currency translation differences	-	-	13,143	-	13,143	-	13,143
Change in fair value of investments	-	-	(2,091)	-	(2,091)	-	(2,091)
Cash flow hedging derivative and non-derivative financial instruments:							
Unrealized loss in fair value of financial instruments	-	-	403	-	403	-	403
Reclassification of losses to net income	-	-	(190)	-	(190)	-	(190)
<b>BALANCE AT SEPTEMBER 30, 2018</b>	\$ 710,549	\$ 41,677	\$ 105,533	\$ 244,484	\$ 1,102,243	\$ -	\$ 1,102,243

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES:</b>				
Net Income for the period	\$ 36,381	\$ 36,022	\$ 148,067	\$ 126,900
Adjustments for:				
Depreciation of property, plant and equipment	41,787	36,873	120,345	109,401
Amortization of customer contracts and relationships	537	552	1,605	1,632
Amortization of development costs	2,812	3,345	8,554	9,991
Unrealized loss (gain) on foreign exchange forward contracts	(235)	331	(700)	781
Unrealized loss (gain) on derivative instruments (note 6)	901	(1,375)	1,439	(1,375)
Finance expense	6,937	5,451	20,345	16,792
Income tax expense	12,236	10,348	48,254	37,863
Loss (gain) on disposal of property, plant and equipment	159	(234)	369	(527)
Deferred and restricted share units expense	1,009	473	2,389	1,262
Stock options expense	55	37	283	111
Gain on sale of land and building (note 4)	-	-	-	(5,698)
Pension and other post-retirement benefits expense	1,193	1,137	3,565	3,429
Contributions made to pension and other post-retirement benefits	(1,660)	(473)	(4,284)	(1,449)
	102,112	92,487	350,231	299,113
Changes in non-cash working capital items:				
Trade and other receivables	(35,769)	73,413	(47,335)	30,311
Inventories	(26,603)	(48,863)	(85,841)	(85,615)
Prepaid expenses and deposits	(1,693)	622	(5,385)	(3,243)
Trade, other payables and provisions	54,460	(42,659)	108,041	54,846
	92,507	75,000	319,711	295,412
Interest paid (excluding capitalized interest)	(8,065)	(4,797)	(22,309)	(14,761)
Income taxes paid	(16,675)	(10,597)	(79,253)	(43,254)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 67,767</b>	<b>\$ 59,606</b>	<b>\$ 218,149</b>	<b>\$ 237,397</b>
<b>FINANCING ACTIVITIES:</b>				
Repurchase of common shares	(8,960)	-	(8,960)	-
Increase in long-term debt (net of addition to deferred financing fees)	33,144	-	89,719	-
Repayment of long-term debt	(5,340)	(4,608)	(52,343)	(39,198)
Dividends paid	(3,909)	(2,606)	(9,114)	(7,788)
Exercise of employee stock options	750	-	1,835	202
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ 15,685</b>	<b>\$ (7,214)</b>	<b>\$ 21,137</b>	<b>\$ (46,784)</b>
<b>INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment*	(69,506)	(49,004)	(220,808)	(192,556)
Capitalized development costs	(3,610)	(3,289)	(10,094)	(10,580)
Investment in NanoXplore Inc. (note 6)	-	(2,475)	(680)	(2,475)
Proceeds on disposal of property, plant and equipment	155	705	1,128	1,330
Upfront recovery of development costs incurred	169	-	2,445	1,170
Proceeds on disposal of land and building (note 4)	-	-	-	9,872
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (72,792)</b>	<b>\$ (54,063)</b>	<b>\$ (228,009)</b>	<b>\$ (193,239)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(2,224)	(3,007)	1,224	(4,074)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,436</b>	<b>(4,678)</b>	<b>12,501</b>	<b>(6,700)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>75,258</b>	<b>57,143</b>	<b>71,193</b>	<b>59,165</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 83,694</b>	<b>\$ 52,465</b>	<b>\$ 83,694</b>	<b>\$ 52,465</b>

\*As at September 30, 2018, \$25,571 (December 31, 2017 - \$63,877) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

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, 2017, 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, 2017.

#### (c) 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 and applicable accounting standards and policies

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

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

The Company adopted IFRS 15 using the full retrospective approach. The adoption of the standard did not result in any restatement of previously reported results and did not have a material impact on the consolidated financial statements.

The following should be read as a modification to the significant accounting policies in note 2(j) of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

##### *Revenue Recognition Policy*

Revenue recognition policies under the new standard are substantially consistent with prior reporting periods. The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

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

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



# 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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### IFRS 9, Financial Instruments

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

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

The following should be read as a modification to the significant accounting policies in note 2 (c) and 2 (g) (i) of the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

(i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification under IFRS 9 as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative assets and derivative liabilities that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income (FVTOCI):

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the statement of operations.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

(ii) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward-looking information. The Company's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on the Company's policy for assessing impairment of financial assets.

(iii) Derivative financial instruments not accounted for as hedges

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments, as well as derivative instruments associated with investments in equity securities, are classified as FVTPL, initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value being recognized immediately in the statement of operations.

# 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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### Hedge Accounting

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

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

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

### Cash flow hedges

During the second quarter, the Company started hedging variability in cash flows of forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these in a cash flow hedge. In a cash flow hedge, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income until the hedged item affects net income. Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

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

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

### Net investment hedges

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

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

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

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

## **(e) Recently issued accounting standards**

The IASB issued the following amendments to existing standards:

### IFRS 16, Leases

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. 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 intends to adopt the new standard using the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings on the date of initial application without restating prior periods. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements and is in the process of collecting and cataloguing all existing leases and is analyzing the impact of the new standard on existing leases. The adoption of IFRS 16 will result in operating lease liabilities and corresponding right-of-use assets being recognized on the

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

consolidated statement of financial position. The adoption of IFRS 16 will also result in a decrease in operating rent expense and, increases in finance and depreciation expenses as recognized in the consolidated statement of operations. The full extent of the impact has not yet been finalized.

### 2. TRADE AND OTHER RECEIVABLES

	September 30, 2018	December 31, 2017
Trade receivables	\$ 595,721	\$ 538,830
Other receivables	17,386	17,219
Foreign exchange forward contracts not accounted for as hedges (note 15(d))	700	-
	\$ 613,807	\$ 556,049

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

### 3. INVENTORIES

	September 30, 2018	December 31, 2017
Raw materials	\$ 168,322	\$ 154,293
Work in progress	39,373	38,618
Finished goods	35,637	34,962
Tooling work in progress and other inventory	223,621	149,099
	\$ 466,953	\$ 376,972

### 4. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 123,236	\$ (20,457)	\$ 102,779	\$ 118,154	\$ (17,157)	\$ 100,997
Leasehold improvements	67,192	(38,850)	28,342	62,100	(35,897)	26,203
Manufacturing equipment	1,905,195	(1,007,920)	897,275	1,758,415	(909,065)	849,350
Tooling and fixtures	39,309	(32,839)	6,470	38,509	(31,034)	7,475
Other assets	58,585	(28,564)	30,021	53,197	(24,793)	28,404
Construction in progress and spare parts	297,045	-	297,045	270,195	-	270,195
	\$ 2,490,562	\$ (1,128,630)	\$ 1,361,932	\$ 2,300,570	\$ (1,017,946)	\$ 1,282,624

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction progress and spare parts	Total
Net as of December 31, 2016	\$ 120,049	\$ 24,987	\$ 808,036	\$ 8,419	\$ 17,757	\$ 277,999	\$ 1,257,247
Additions	-	802	565	-	242	250,311	251,920
Disposals	(22,497)	(311)	(2,024)	-	(209)	-	(25,041)
Depreciation	(4,068)	(4,173)	(134,515)	(1,435)	(5,479)	-	(149,670)
Impairment	-	-	(7,488)	-	-	-	(7,488)
Transfers from construction in progress and spare parts	12,537	5,272	213,526	987	16,583	(248,905)	-
Foreign currency translation adjustment	(5,024)	(374)	(28,750)	(496)	(490)	(9,210)	(44,344)
Net as of December 31, 2017	100,997	26,203	849,350	7,475	28,404	270,195	1,282,624
Additions	8	140	-	-	66	182,288	182,502
Disposals	-	(5)	(815)	-	(7)	(670)	(1,497)
Depreciation	(3,007)	(3,033)	(108,289)	(1,319)	(4,697)	-	(120,345)
Transfers from construction in progress and spare parts	3,053	4,919	144,605	185	6,002	(158,764)	-
Foreign currency translation adjustment	1,728	118	12,424	129	253	3,996	18,648
Net as of September 30, 2018	\$ 102,779	\$ 28,342	\$ 897,275	\$ 6,470	\$ 30,021	\$ 297,045	\$ 1,361,932

The Company has entered into certain asset-backed financing arrangements that were structured as sales-leaseback transactions. At September 30, 2018, the carrying value of property, plant and equipment under such arrangements was \$18,251 (December 31, 2017 - \$21,001). The corresponding amounts owing are reflected within long-term debt (note 9).

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

### 5. INTANGIBLE ASSETS

	September 30, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 61,597	\$ (57,232)	\$ 4,365	\$ 61,432	\$ (55,512)	\$ 5,920
Development costs	148,983	(86,193)	62,790	143,325	(80,831)	62,494
	\$ 210,580	\$ (143,425)	\$ 67,155	\$ 204,757	\$ (136,343)	\$ 68,414

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships		Development costs		Total
Net as of December 31, 2016	\$ 8,172	\$	65,089	\$	73,261
Additions	-		14,211		14,211
Amortization	(2,162)		(13,237)		(15,399)
Upfront recovery of development costs incurred	-		(1,170)		(1,170)
Foreign currency translation adjustment	(90)		(2,399)		(2,489)
Net as of December 31, 2017	5,920		62,494		68,414
Additions	-		10,094		10,094
Amortization	(1,605)		(8,554)		(10,159)
Upfront recovery of development costs incurred	-		(2,445)		(2,445)
Foreign currency translation adjustment	50		1,201		1,251
Net as of September 30, 2018	\$ 4,365	\$	62,790	\$	67,155

### 6. OTHER ASSETS

	September 30, 2018		December 31, 2017
Investment in common shares of NanoXplore Inc.	\$ 9,459	\$	11,275
Warrants in NanoXplore Inc.	2,657		3,990
	\$ 12,116	\$	15,265

#### Investment in NanoXplore Inc.

In the third quarter of 2017, the Company acquired 5,500,000 common shares in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA, for a total of \$2,475 through a private placement offering. As part of the transaction to acquire the common shares, the Company also received warrants entitling the Company to acquire up to an additional 2,750,000 common shares in NanoXplore at a price of \$0.70 per share for a period of up to two years after issuance.

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

The initial purchase price of \$2,475 was allocated to the common shares and warrants acquired based on their relative fair values at the time of issuance resulting in \$2,182 being initially allocated to the common shares and \$293 to the warrants.

During the first quarter of 2018, the Company acquired an additional 411,800 common shares in NanoXplore for a total of \$680 through another private placement offering. As part of the transaction to acquire the additional common shares, the Company also received warrants entitling the Company to acquire up to an additional 205,900 common shares in NanoXplore at a price of \$2.30 per share for a period of up to two years after issuance. The purchase price of \$680 was allocated to the additional common shares and warrants acquired based on their relative fair values at the time of issuance resulting in \$574 being allocated to the common shares and \$106 to the warrants.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes valuation model, with the change in fair value recorded through profit or loss. As at September 30, 2018, the warrants had a fair value of \$2,657. Based on the fair value of the warrants as at September 30, 2018, an unrealized loss of \$901 was recognized for the three months ended September 30, 2018, and an unrealized loss of \$1,439 was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 – unrealized gain of \$1,375), recorded in Other finance income (expense) in the interim condensed consolidated statement of operations. The table below summarizes the assumptions used, on a weighted average basis, in valuing the warrants under the Black-Scholes valuation model during the nine months ended September 30, 2018:

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

	2018 Acquisition	September 30, 2018
Expected volatility	66.87%	69.08%
Risk free interest rate	1.88%	2.20%
Expected life (years)	2	1

The NanoXplore common shares are recorded at their fair value at the end of each reporting period based on publically quoted prices, with the change in fair value recorded in other comprehensive income. As at September 30, 2018, the common shares had a fair value of \$9,459. Based on the fair value of the common shares as at September 30, 2018, an unrealized loss of \$1,774 (\$1,552 net of tax) was recognized for the three months ended September 30, 2018, and an unrealized loss of \$2,390 (\$2,091 net of tax) was recognized for the nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - unrealized gain of \$3,813, \$3,336 net of tax).

### 7. TRADE AND OTHER PAYABLES

	September 30, 2018	December 31, 2017
Trade accounts payable and accrued liabilities	\$ 825,779	\$ 741,403
Foreign exchange forward contracts not accounted for as hedges (note 15(d))	-	146
Foreign exchange forward contracts accounted for as hedges (note 15(d))	99	-
	\$ 825,878	\$ 741,549

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

### 8. PROVISIONS

	Restructuring	Claims and Litigations	Total
Net as of December 31, 2016	\$ 5,248	\$ 1,441	\$ 6,689
Net additions	-	5,840	5,840
Amounts used during the period	(4,060)	(2,979)	(7,039)
Foreign currency translation adjustment	(72)	(370)	(442)
Net as of December 31, 2017	1,116	3,932	5,048
Net additions	-	1,797	1,797
Amounts used during the period	(355)	(1,338)	(1,693)
Foreign currency translation adjustment	9	(522)	(513)
Net as of September 30, 2018	\$ 770	\$ 3,869	\$ 4,639

Based on estimated cash outflows, all provisions as at September 30, 2018 and December 31, 2017 are presented on the interim condensed consolidated balance sheets as current liabilities.

### 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.

	September 30, 2018	December 31, 2017
Banking facility	\$ 614,298	\$ 551,656
Equipment loans	86,282	102,361
	700,580	654,017
Current portion	(16,202)	(24,795)
	\$ 684,378	\$ 629,222

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

Terms and conditions of outstanding loans, as at September 30, 2018, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	September 30, 2018 Carrying amount	December 31, 2017 Carrying amount
Banking facility	USD	LIBOR + 1.45%	2022	\$ 369,598	\$ 321,152
	CAD	BA + 1.45%	2022	244,700	230,504
Equipment loans	CAD	3.80%	2022	33,223	38,785
	EUR	1.05%	2024	32,303	-
	EUR	2.54%	2025	15,501	15,561
	USD	4.25%	2018	1,652	8,917
	EUR	1.36%	2021	1,486	2,100
	EUR	3.35%	2019	1,325	2,504
	USD	3.80%	2022	362	413
	EUR	0.26%	2025	349	375
	BRL	5.00%	2020	81	135
	EUR	3.06%	2024	-	15,210
	EUR	4.93%	2023	-	15,131
	EUR	4.34%	2025	-	3,230
				\$	700,580

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

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

As at September 30, 2018, the Company has drawn US\$286,000 (December 31, 2017 - US\$256,000) on the U.S. revolving credit line and \$248,000 (December 31, 2017 - \$233,000) on the Canadian revolving credit line. At September 30, 2018, the weighted average effective rate of the banking facility credit lines was 3.6% (December 31, 2017 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at September 30, 2018.

Deferred financing fees of \$3,369 (December 31, 2017 - \$2,827) have been netted against the carrying amount of the long-term debt.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23,000 (\$36,886) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans at fixed annual interest rates of 3.06%, 4.34% and 4.93%.

Future annual minimum principal repayments as at September 30, 2018 are as follows:

Within one year	\$	16,271
One to two years		11,627
Two to three years		11,828
Three to four years		632,589
Thereafter		31,634
	\$	703,949
Less: Deferred financing fees		(3,369)
		700,580

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

Movement in long-term debt is summarized as follows:

	<b>Total</b>
Net as of December 31, 2016	\$ 721,403
Equipment loan proceeds	40,000
Repayments	(88,648)
Amortization of deferred financing fees	1,368
Foreign currency translation adjustment	(20,106)
Net as of December 31, 2017	\$ 654,017
Drawdowns	54,360
Equipment loan proceeds	36,886
Repayments	(52,343)
Additions to deferred financing fees	(1,527)
Amortization of deferred financing fees	985
Foreign currency translation adjustment	8,202
Net as of September 30, 2018	\$ 700,580

### 10. CAPITAL STOCK

<b>Common shares outstanding:</b>	<b>Number</b>	<b>Amount</b>
Balance, December 31, 2016	86,484,667	\$ 710,510
Exercise of stock options	27,500	284
Balance, September 30, 2017	86,512,167	\$ 710,794
Exercise of stock options	233,667	2,631
Balance, December 31, 2017	86,745,834	\$ 713,425
Exercise of stock options	223,750	2,422
Repurchase of common shares under normal course issuer bid	(643,720)	(5,298)
Balance, September 30, 2018	86,325,864	\$ 710,549

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

#### Repurchase of capital stock:

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

During the third quarter, the Company purchased for cancellation an aggregate of 643,720 common shares for an aggregate purchase price of \$8,960, resulting in a reduction to stated capital of \$5,298 and a decrease to retained earnings of \$3,662. The shares were purchased for cancellation directly under the NCIB.

#### Stock options

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

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,844,450	\$ 10.12	3,010,617	\$ 11.38
Granted during the period	820,000	13.54	-	-
Exercised during the period	(223,750)	8.20	(27,500)	7.33
Cancelled during the period	-	-	(905,000)	14.91
Balance, end of period	2,440,700	\$ 11.45	2,078,117	\$ 9.90
Options exercisable, end of period	1,645,700	\$ 10.47	1,953,117	\$ 9.77



# 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 September 30, 2018:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$6.00 - 8.99	543,701	2008 - 2012	2018 - 2022
\$10.00 - 15.99	1,796,999	2008 - 2018	2018 - 2028
\$16.00 - 17.99	100,000	2018	2028
Total share purchase options	2,440,700		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes option pricing model. The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

The key assumptions, on a weighted average basis, used in the valuation of options granted during the nine months ended September 30, 2018 and 2017 are shown in the table below:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expected volatility	36.67%	-
Risk free interest rate	2.19%	-
Expected life (years)	4.88	-
Dividend yield	1.36%	-
Weighted average fair value of options granted	\$ 3.82	\$ -

For the three and nine months ended September 30, 2018, the Company expensed \$55 (2017 - \$37) and \$283 (2017 - \$111), 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 September 30, 2018 and 2017:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Units outstanding, beginning of period	123,313	67,837
Units granted during the period	19,031	30,894
Units settled during the period	-	-
Units for dividends earned during the period (issued twice a year)	588	420
Units outstanding, end of period	142,932	99,151

The DSUs granted during the nine months ended September 30, 2018 and 2017 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of \$15.77 and \$9.71, respectively, on the date of grant. At September 30, 2018, the fair value of all outstanding DSUs amounted to \$1,966 (September 30, 2017 - \$1,107 and December 31, 2017 - \$1,939). For the three and nine months ended September 30, 2018, DSU compensation expense/benefit reflected in the interim consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of \$207 (2017 - expense of \$41) and an expense of \$28 (2017 - expense of \$539), respectively, recorded in Selling, general and administrative expense.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### Performance Restricted Share Unit Plan

The following is a summary of the issued and outstanding RSUs and PSUs as at September 30, 2018 and 2017:

	RSUs	PSUs	Total
Units outstanding, December 31, 2016	-	-	-
Units granted during the period	57,760	57,760	115,520
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, September 30, 2017	57,760	57,760	115,520
Units granted during the period	19,544	19,544	39,088
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, December 31, 2017	77,304	77,304	154,608
Units granted during the period	188,986	188,986	377,972
Units exercised during the period	-	-	-
Units forfeited during the period	-	-	-
Units outstanding, September 30, 2018	266,290	266,290	532,580

The RSUs and PSUs granted during the nine months ended September 30, 2018 and 2017 had a weighted average fair value per unit of \$15.83 and \$11.70, respectively, on the date of grant. For the three and nine months ended September 30, 2018, RSU and PSU compensation expense reflected in the interim consolidated statement of operations, including changes in fair value during the period, amounted to \$1,216 (2017 - \$432) and \$2,361 (2017 - \$723) respectively, recorded in Selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at September 30, 2018 was \$3,796 (September 30, 2017 - \$638 and December 31, 2017 - \$803) and will be recognized in earnings over the next three years as the RSUs and PSUs vest.

The key assumptions, on a weighted average basis, used in the valuation of PSUs granted during the nine months ended September 30, 2018 and 2017 are shown in the table below:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expected life (years)	2.47	2.21
Risk free interest rate	2.02%	1.52%

### 11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Current income tax expense	\$ (33,204)	\$ (16,019)	\$ (93,474)	\$ (58,448)
Deferred income tax recovery	20,968	5,671	45,220	20,585
Total income tax expense	\$ (12,236)	\$ (10,348)	\$ (48,254)	\$ (37,863)

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 12. EARNINGS PER SHARE

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

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,684,746	\$ 0.42	86,512,167	\$ 0.42
Effect of dilutive securities:				
Stock options	411,202	-	281,866	-
Diluted	87,095,948	\$ 0.42	86,794,033	\$ 0.42

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,790,121	\$ 1.71	86,505,494	\$ 1.47
Effect of dilutive securities:				
Stock options	569,413	(0.01)	233,199	-
Diluted	87,359,534	\$ 1.70	86,738,693	\$ 1.47

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 September 30, 2018, 100,000 options (2017 - 842,000) and for the nine months ended September 30, 2018, 100,000 options (2017 - 1,555,749) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

### 13. OTHER FINANCE INCOME (EXPENSE)

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net unrealized foreign exchange gain (loss)	\$ (2,100)	\$ 246	\$ (719)	\$ 861
Unrealized gain (loss) on derivative instruments (note 6)	(901)	1,375	(1,439)	1,375
Other income, net	106	94	259	222
Other finance income (expense)	\$ (2,895)	\$ 1,715	\$ (1,899)	\$ 2,458

### 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.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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, 2017. The Company uses 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 operating segments:

<b>Three months ended September 30, 2018</b>				
	<b>Production Sales</b>	<b>Tooling Sales</b>	<b>Total Sales</b>	<b>Operating Income</b>
North America				
Canada	\$ 142,063	\$ 44,554	\$ 186,617	
USA	265,409	28,924	294,333	
Mexico	250,660	13,808	264,468	
Eliminations	(43,475)	(53,294)	(96,769)	
	\$ 614,657	\$ 33,992	\$ 648,649	\$ 52,237
Europe				
Germany	115,171	5,689	120,860	
Spain	32,198	5,964	38,162	
Slovakia	11,688	1,261	12,949	
Eliminations	-	(69)	(69)	
	159,057	12,845	171,902	6,164
Rest of the World	31,210	2,332	33,542	48
Eliminations	(1,831)	(1,126)	(2,957)	
	\$ 803,093	\$ 48,043	\$ 851,136	\$ 58,449

<b>Three months ended September 30, 2017</b>				
	<b>Production Sales</b>	<b>Tooling Sales</b>	<b>Total Sales</b>	<b>Operating Income</b>
North America				
Canada	\$ 139,651	\$ 9,190	\$ 148,841	
USA	300,585	4,497	305,082	
Mexico	210,923	22,084	233,007	
Eliminations	(32,264)	(7,771)	(40,035)	
	\$ 618,895	\$ 28,000	\$ 646,895	\$ 42,459
Europe				
Germany	102,109	5,000	107,109	
Spain	38,709	4,804	43,513	
Slovakia	12,882	1,801	14,683	
Eliminations	(6)	(159)	(165)	
	153,694	11,446	165,140	9,034
Rest of the World	29,951	368	30,319	(1,387)
Eliminations	(2,570)	(1,249)	(3,819)	
	\$ 799,970	\$ 38,565	\$ 838,535	\$ 50,106

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### Nine months ended September 30, 2018

	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	\$ 467,419	\$ 69,965	\$ 537,384	
USA	882,751	77,631	960,382	
Mexico	735,495	45,648	781,143	
Eliminations	(126,479)	(60,779)	(187,258)	
	\$ 1,959,186	\$ 132,465	\$ 2,091,651	\$ 180,864
Europe				
Germany	354,169	24,352	378,521	
Spain	110,572	13,658	124,230	
Slovakia	40,902	3,850	44,752	
Eliminations	-	(1,175)	(1,175)	
	505,643	40,685	546,328	36,746
Rest of the World	95,388	12,363	107,751	955
Eliminations	(7,485)	(1,499)	(8,984)	
	\$ 2,552,732	\$ 184,014	\$ 2,736,746	\$ 218,565

### Nine months ended September 30, 2017

	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	\$ 561,025	\$ 51,956	\$ 612,981	
USA	1,046,273	17,281	1,063,554	
Mexico	638,304	60,075	698,379	
Eliminations	(118,658)	(17,323)	(135,981)	
	\$ 2,126,944	\$ 111,989	\$ 2,238,933	\$ 155,970
Europe				
Germany	307,275	19,389	326,664	
Spain	113,018	9,627	122,645	
Slovakia	41,499	2,815	44,314	
Eliminations	(178)	(365)	(543)	
	461,614	31,466	493,080	30,892
Rest of the World	88,765	1,398	90,163	(7,765)
Eliminations	(7,561)	(2,758)	(10,319)	
	\$ 2,669,762	\$ 142,095	\$ 2,811,857	\$ 179,097

## 15. FINANCIAL INSTRUMENTS

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

### Fair Value

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# Martinrea International Inc.

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

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 83,694	\$ 83,694	\$ -	\$ -
Other assets (note 6)	\$ 12,116	\$ 9,459	\$ 2,657	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	\$ 700	\$ -	\$ 700	\$ -
Foreign exchange forward contracts accounted for as hedges (note 7)	\$ (99)	\$ -	\$ (99)	\$ -

  

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 71,193	\$ 71,193	\$ -	\$ -
Other assets (note 6)	\$ 15,265	\$ 11,275	\$ 3,990	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 7)	\$ (146)	\$ -	\$ (146)	\$ -

### 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:

September 30, 2018	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>						
Trade and other receivables	\$ -	\$ -	\$ 613,107	\$ -	\$ 613,107	\$ 613,107
Other assets (note 6)	2,657	9,459	-	-	12,116	12,116
Foreign exchange forward contracts not accounted for as hedges	700	-	-	-	700	700
	3,357	9,459	613,107	-	625,923	625,923
<b>FINANCIAL LIABILITIES:</b>						
Trade and other payables	-	-	-	(825,779)	(825,779)	(825,779)
Long-term debt	-	-	-	(700,580)	(700,580)	(700,580)
Foreign exchange forward contracts accounted for as hedges	-	(99)	-	-	(99)	(99)
	-	(99)	-	(1,526,359)	(1,526,458)	(1,526,458)
<b>Net financial assets (liabilities)</b>	\$ 3,357	\$ 9,360	\$ 613,107	\$ (1,526,359)	\$ (900,535)	\$ (900,535)

  

December 31, 2017	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>						
Trade and other receivables	\$ -	\$ -	\$ 556,049	\$ -	\$ 556,049	\$ 556,049
Other assets (note 6)	3,990	11,275	-	-	15,265	15,265
	3,990	11,275	556,049	-	571,314	571,314
<b>FINANCIAL LIABILITIES:</b>						
Trade and other payables	-	-	-	(741,403)	(741,403)	(741,403)
Long-term debt	-	-	-	(654,017)	(654,017)	(654,017)
Foreign exchange forward contracts	(146)	-	-	-	(146)	(146)
	(146)	-	-	(1,395,420)	(1,395,566)	(1,395,566)
<b>Net financial assets (liabilities)</b>	\$ 3,844	\$ 11,275	\$ 556,049	\$ (1,395,420)	\$ (824,252)	\$ (824,252)

The fair values 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, currency risk and market price risk related to publicly-traded investment. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

#### (a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 29.3%, 27.3%, and 15.8% of its production sales for the nine months ended September 30, 2018 (2017 - 33.2%, 27.3% and 14.9%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at September 30, 2018 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:

	September 30, 2018	December 31, 2017
0-60 days	\$ 559,843	\$ 501,336
61-90 days	15,573	19,853
Greater than 90 days	20,305	17,641
	\$ 595,721	\$ 538,830

#### (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 September 30, 2018, the Company had cash of \$83,694 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	
	September 30, 2018	December 31, 2017
Variable rate instruments	\$ 614,298	\$ 551,656
Fixed rate instruments	86,282	102,361
	\$ 700,580	\$ 654,017

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,515 (2017 - \$1,497) on the Company's interim consolidated financial results for the three months ended September 30, 2018 and \$4,422 (2017 - \$4,582) for the nine months ended September 30, 2018.

### (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 sales 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 September 30, 2018, the Company had committed to the following foreign exchange forward contracts:

Foreign exchange forward contracts not accounted for as hedges and fair valued through profit or loss

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 40,000	1.3003	1
Buy Mexican Peso	\$ 25,331	18.9494	1

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax gain of \$700 and was recorded in trade and other receivables (December 31, 2017 - loss of \$146 and was recorded in trade and other payables).

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

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 64,000	1.2780	51

The aggregate value of these forward contracts as at September 30, 2018 was a pre-tax loss of \$99 and was recorded in trade and other payables (December 31, 2017 - nil).

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

September 30, 2018	USD		EURO		PESO		BRL		CNY	
Trade and other receivables	\$	339,232	€	73,523	\$	34,236	R\$	34,874	¥	77,482
Trade and other payables		(395,599)		(94,854)		(238,867)		(45,541)		(109,850)
Long-term debt		(287,611)		(33,988)		-		(253)		-
	\$	(343,978)	€	(55,319)	\$	(204,631)	R\$	(10,920)	¥	(32,368)



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December 31, 2017	USD		EURO		PESO		BRL		CNY	
Trade and other receivables	\$	282,095	€	64,926	\$	44,972	R\$	19,424	¥	174,033
Trade and other payables		(330,020)		(91,091)		(163,168)		(25,341)		(116,149)
Long-term debt		(263,701)		(35,949)		-		(356)		-
	\$	(311,626)	€	(62,114)	\$	(118,196)	R\$	(6,273)	¥	57,884

The following summary illustrates the fluctuations in the exchange rates applied during the three and nine months ended September 30, 2018 and 2017:

	Average rate		Average rate		Closing rate	
	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017	September 30, 2018	December 31, 2017
	USD	1.3100	1.2849	1.2856	1.3186	1.2923
EURO	1.5236	1.4823	1.5367	1.4494	1.4995	1.5089
PESO	0.0677	0.0718	0.0674	0.0691	0.0690	0.0639
BRL	0.3403	0.3997	0.3670	0.4127	0.3187	0.3795
CNY	0.1961	0.1906	0.1982	0.1927	0.1881	0.1924

### 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 September 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 nine months ended September 30, 2018 and 2017 by the amounts shown below, assuming all other variables remain constant:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
USD	\$ (3,536)	\$ (2,733)	\$ (11,233)	\$ (9,803)
EURO	(655)	(788)	(3,240)	(2,616)
BRL	(10)	86	136	783
CNY	32	90	(73)	257
	\$ (4,169)	\$ (3,345)	\$ (14,410)	\$ (11,379)

A weakening of the Canadian dollar against the above currencies at September 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) Market price risk related to publicly-traded investments

Market price risk related to publicly-traded investments refers to the risk that changes or fluctuations in the market prices of the Company's investments in publicly-traded companies will affect income, cash flows or the value of financial instruments. The Company manages risks related to such changes by regularly reviewing publicly available information related to these investments to ensure that any risks are within reasonable levels of risk tolerance. The Company does not engage in risk management practices such as hedging, derivatives, or short selling with respect to publicly-traded investments.

### (f) Capital risk management

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

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

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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.

### 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 Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately \$67,100 (BRL 210,600) including interest and penalties to September 30, 2018 (December 31, 2017 - \$83,110 or BRL 219,460). 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 \$43,849 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 September 30, 2018, the amount of the program financing was \$65,755 (December 31, 2017 - \$75,189) 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 2018 or 2017. 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.