



MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS
FOR THE SECOND QUARTER ENDING JUNE 30, 2019

SECOND QUARTER REPORT

June 30, 2019

MESSAGE TO SHAREHOLDERS

The Company experienced a record second quarter, with improving earning and margins, as reflected in the attached materials. Our Company continues to improve. Our financial position remains very strong and our future is bright.

We thank you for your ongoing support as we work hard to build our company and your company.

(Signed) “*Rob Wildeboer*”

Rob Wildeboer
Executive Chairman



PRESS RELEASE

FOR IMMEDIATE RELEASE

August 6, 2019

MARTINREA INTERNATIONAL INC. REPORTS SECOND QUARTER RESULTS AND DECLARES DIVIDEND

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems, today announced the release of its financial results for the second quarter ended June 30, 2019 and that it has declared a quarterly cash dividend of \$0.045 per share.

HIGHLIGHTS

- Total sales of \$949 million; production sales of \$898 million, both up year-over-year
- Quarterly diluted net earnings per share of \$0.34
- Record second quarter adjusted diluted net earnings per share⁽¹⁾ of \$0.66
- Quarterly adjusted operating income⁽¹⁾ margin of 8.9%
- Record second quarter adjusted EBITDA⁽¹⁾
- Quarterly free cash flow⁽¹⁾ of \$57 million
- Strengthened balance sheet with reduced debt (excluding impact of IFRS 16); net debt:adjusted EBITDA⁽¹⁾ down to 1.48x
- New business awards of approximately \$50 million in annualized sales at peak volumes
- Quarterly cash dividend of \$0.045 per share declared

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "I am very pleased with our second quarter results. We had a great quarter, with solid financial and operating performance. In a year when the overall market is seeing some volume headwinds, and a number of suppliers have seen reduced margins and earnings, our margins and earnings have remained very solid and our adjusted earnings per share, ebitda, and free cash flow are all up year over year. We are in the midst of a very heavy launch cycle, but launches are proceeding well. In the past few weeks we have won approximately \$50 million in annualized sales at peak volumes, including Lightweighting Structures for Honda and Nissan starting in 2021 and powerpact module assemblies for Ford starting in 2023. Our people are performing well, and we thank them for their efforts."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the second quarter, excluding tooling sales of approximately \$50 million, were \$898 million, within the range of our previously announced sales guidance. In the quarter, our adjusted net earnings per share, on a basic and diluted basis, was \$0.66 per share, also within the range of our quarterly guidance and a record second quarter. Adjusted operating income margin for the quarter was 8.9%. I'm also happy to report that we were free cash flow positive for the second quarter. We have said, for quite some time, that you would start seeing our free cash flow profile turn positive in 2019, and our second quarter results clearly reflect that. The year

¹ 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", "Adjusted EBITDA" and "Free Cash Flow".

continues to trend as planned. Third quarter sales, excluding tooling sales, should be in the range of \$820 million to \$860 million, and adjusted net earnings per share in the range of \$0.53 to \$0.57 per share. This would be the best third quarter in our history.”

Rob Wildeboer, Executive Chairman, stated: “We believe 2019 will be another record year for Martinrea. Our North American segment has done extremely well year to date despite some reduction in overall market volumes. The North American economy continues to perform positively, and the trade and tariff issues for North America are moving in the right direction; the progress on the USMCA is a net positive for us, we believe. Our European segment is performing well despite some overall softness there. We have made very good moves in Brazil and China to right-size our operations, as discussed last quarter. Overall, our financial metrics are improving on an absolute and relative basis compared to most of our peers. With our solid financial performance and cash flow, we will continue to invest in our business, make strategic investments where appropriate, and pay down debt to maintain a strong balance sheet. We also intend to renew our normal course issuer bid when the current one expires. We are very well-positioned for a great future.”

RESULTS OF OPERATIONS

All amounts in this press release 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 Management Discussion and Analysis of Operating Results and Financial Position for the second quarter ended June 30, 2019 (“MD&A”), the Company’s interim condensed consolidated financial statements for the second quarter ended June 30, 2019 (the “interim consolidated financial statements”) and the Company’s Annual Information Form for the year ended December 31, 2018, can be found at www.sedar.com.

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 key financial metrics underlying the Company’s performance for the three and six months ended June 30, 2019 and 2018. Refer to the Company’s financial statements for the three and six months ended June 30, 2019 for a detailed account of the Company’s performance for the periods presented in the tables below.

	Three months ended		Three months ended		\$ Change	% Change
	June 30, 2019		June 30, 2018			
Sales	\$	948,533	\$	921,710	26,823	2.9%
Gross Margin		154,778		150,035	4,743	3.2%
Operating Income		57,302		81,675	(24,373)	(29.8%)
Net Income for the period		28,122		55,727	(27,605)	(49.5%)
Net Earnings per Share - Basic and Diluted	\$	0.34	\$	0.64	(0.30)	(46.9%)
<u>Non-IFRS Measures</u>⁽¹⁾						
Adjusted Operating Income	\$	83,969	\$	81,675	2,294	2.8%
<i>% of Sales</i>		8.9%		8.9%		
Adjusted EBITDA		137,709		125,732	11,977	9.5%
<i>% of Sales</i>		14.5%		13.6%		
Adjusted Net Income		54,570		55,527	(957)	(1.7%)
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.66	\$	0.64	0.02	3.1%

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
Sales	\$	1,971,694	\$	1,885,610	86,084	4.6%
Gross Margin		312,279		294,464	17,815	6.0%
Operating Income		140,765		160,116	(19,351)	(12.1%)
Net Income for the period		83,390		111,686	(28,296)	(25.3%)
Net Earnings per Share - Basic	\$	1.00	\$	1.29	(0.29)	(22.5%)
Net Earnings per Share - Diluted	\$	1.00	\$	1.28	(0.28)	(21.9%)
Non-IFRS Measures⁽¹⁾						
Adjusted Operating Income	\$	167,432	\$	160,116	7,316	4.6%
<i>% of Sales</i>		8.5%		8.5%		
Adjusted EBITDA		271,620		245,694	25,926	10.6%
<i>% of Sales</i>		13.8%		13.0%		
Adjusted Net Income		110,346		112,157	(1,811)	(1.6%)
Adjusted Net Earnings per Share - Basic	\$	1.33	\$	1.29	0.04	3.1%
Adjusted Net Earnings per Share - Diluted	\$	1.33	\$	1.28	0.05	3.9%

Impact of the Adoption of IFRS 16, Leases

Effective January 1, 2019, the Company adopted the new accounting standard, IFRS 16, Leases ("IFRS 16"). In adopting the new standard, the Company used the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings, if any, on the date of initial application without restating comparative prior periods. As such, 2018 prior year comparatives have not been restated.

The adoption of the new standard resulted in the recognition of lease liabilities of \$228.6 million and right-of-use assets of \$223.8 million, net of accrued liabilities related to the leases of \$4.8 million, recognized as at January 1, 2019 in the interim condensed consolidated balance sheet. From an earnings perspective, while timing differences may exist, the new standard results in a decrease in operating rent expense essentially replaced by increases in finance and depreciation expenses as recognized in the interim condensed consolidated statement of operations. As such, the adoption of IFRS 16 did not have a significant impact on the Company's operating results and the financial metrics for the three and six months ended June 30, 2019 outlined above other than "Adjusted EBITDA". The adoption of IFRS 16 contributed approximately 7% of the year-over-year growth in Adjusted EBITDA due to the recognition of depreciation expense on right-of-use assets, in lieu of operating rent expense, as required by the new standard. The adoption of the new standard is further explained in "Recently adopted and applicable accounting standards and policies" in the MD&A and note 1(d)(i) of the financial statements for the three and six months ended June 30, 2019.

The following tables provide a reconciliation of IFRS "Net Income" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

	Three months ended June 30, 2019		Three months ended June 30, 2018	
Net Income	\$	28,122	\$	55,727
Unusual and Other Items (after-tax)*		26,448		(200)
Adjusted Net Income	\$	54,570	\$	55,527

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Net Income	\$	83,390	\$	111,686
Unusual and Other Items (after-tax)*		26,956		471
Adjusted Net Income	\$	110,346	\$	112,157

**Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release*

	Three months ended June 30, 2019		Three months ended June 30, 2018	
Net Income	\$	28,122	\$	55,727
Income tax expense		17,642		18,065
Other finance expense - excluding Unusual and Other Items*		853		1,205
Share of loss of an associate		512		-
Finance expense		9,944		6,907
Unusual and Other Items (before-tax)*		26,896		(229)
Adjusted Operating Income	\$	83,969	\$	81,675
Depreciation of property, plant and equipment		49,837		40,500
Amortization of intangible assets		4,051		3,333
Loss (gain) on disposal of property, plant and equipment		(148)		224
Adjusted EBITDA	\$	137,709	\$	125,732

	Six months ended June 30, 2019	Six months ended June 30, 2018
Net Income	\$ 83,390	\$ 111,686
Income tax expense	36,027	36,018
Other finance expense (income) - excluding Unusual and Other Items*	286	(1,534)
Share of loss of an associate	512	-
Finance expense	19,740	13,408
Unusual and Other Items (before-tax)*	27,477	538
Adjusted Operating Income	\$ 167,432	\$ 160,116
Depreciation of property, plant and equipment	96,731	78,558
Amortization of intangible assets	7,716	6,810
Loss (gain) on disposal of property, plant and equipment	(259)	210
Adjusted EBITDA	\$ 271,620	\$ 245,694

*Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release

SALES

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
North America	\$ 754,041	\$ 701,847	52,194	7.4%
Europe	165,611	188,703	(23,092)	(12.2%)
Rest of the World	30,467	33,828	(3,361)	(9.9%)
Eliminations	(1,586)	(2,668)	1,082	40.6%
Total Sales	\$ 948,533	\$ 921,710	26,823	2.9%

The Company's consolidated sales for the second quarter of 2019 increased by \$26.8 million or 2.9% to \$948.5 million as compared to \$921.7 million for the second quarter of 2018. The total increase in sales was driven by a year-over-year increase in the North America operating segment, partially offset by decreases in Europe and the Rest of the World.

Sales for the second quarter of 2019 in the Company's North America operating segment increased by \$52.2 million or 7.4% to \$754.0 million from \$701.8 million for the second quarter of 2018. The increase was due to the launch of new programs during or subsequent to the second quarter of 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks and the new Chevrolet Blazer; and 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 2019 of approximately \$24.9 million as compared to the second quarter of 2018. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, in particular the Ford Escape, and including programs that ended production during or subsequent to the second quarter of 2018; and a decrease in tooling sales of \$7.9 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the second quarter of 2019 in the Company's Europe operating segment decreased by \$23.1 million or 12.2% to \$165.6 million from \$188.7 million for the second quarter of 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Jaguar Land Rover, and including programs that ended production during or subsequent to the second quarter of 2018; a \$6.1 million decrease in tooling sales; and a \$5.3 million negative foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the second quarter of 2018, including a 2.0L aluminum engine block for Ford.

Sales for the second quarter of 2019 in the Company's Rest of the World operating segment decreased by \$3.4 million or 9.9% to \$30.5 million from \$33.8 million in the second quarter of 2018. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; a \$1.4 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2018; lower year-over-year production sales in the Company's operating facility in Brazil; and a \$0.3 million decrease in tooling sales. These negative factors were partially offset by the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018 but at significantly lower-than-expected volumes.

Overall tooling sales decreased by \$14.3 million to \$50.4 million for the second quarter of 2019 from \$64.8 million for the second quarter of 2018.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
North America	\$ 1,565,178	\$ 1,443,002	122,176	8.5%
Europe	356,006	374,426	(18,420)	(4.9%)
Rest of the World	53,799	74,209	(20,410)	(27.5%)
Eliminations	(3,289)	(6,027)	2,738	45.4%
Total Sales	\$ 1,971,694	\$ 1,885,610	86,084	4.6%

The Company's consolidated sales for the six months ended June 30, 2019 increased by \$86.1 million or 4.6% to \$1,971.7 million as compared to \$1,885.6 million for the six months ended June 30, 2018. The total increase in sales was driven by an increase in the North America operating segment, partially offset by year-over-year decreases in sales in Europe and the Rest of the World.

Sales for the six months ended June 30, 2019 in the Company's North America operating segment increased by \$122.2 million or 8.5% to \$1,565.2 million from \$1,443.0 million for the six months ended June 30, 2018. The increase was due to the launch of new programs during or subsequent to the six months ended June 30, 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, and the new Chevrolet Blazer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2019 of approximately \$59.8 million as compared to the corresponding period of 2018; and an increase in tooling sales of \$12.8 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, including the Ford Escape and Jeep Wrangler, and programs that ended production during or subsequent to the six months ended June 30, 2018.

Sales for the six months ended June 30, 2019 in the Company's Europe operating segment decreased by \$18.4 million or 4.9% to \$356.0 million from \$374.4 million for the six months ended June 30, 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Jaguar Land Rover, and including programs that ended production during or subsequent to the six months ended June 30, 2018; and 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, 2019 of \$6.9 million as compared to the corresponding period of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the six months ended June 30, 2018, including a 2.0L aluminum engine block for Ford; and a \$3.3 million increase in tooling sales.

Sales for the six months ended June 30, 2019 in the Company's Rest of the World operating segment decreased by \$20.4 million or 27.5% to \$53.8 million from \$74.2 million for the six months ended June 30, 2018. The decrease was due to lower year-over-year OEM production volumes on the Ford Mondeo and Cadillac CT6 vehicle platforms in China; a \$5.7 million decrease in tooling sales; a \$2.3 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2018; and lower year-over-year production sales in the Company's operating facility in Brazil. These negative factors were partially offset by the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018 but at significantly lower-than-expected volumes.

Overall tooling sales increased by \$10.4 million to \$146.4 million for the six months ended June 30, 2019 from \$136.0 million for the six months ended June 30, 2018.

GROSS MARGIN

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019		Three months ended June 30, 2018		\$ Change	% Change
Gross margin	\$	154,778	\$	150,035	4,743	3.2%
% of Sales		16.3%		16.3%		

The gross margin percentage for the second quarter of 2019 of 16.3% was consistent with the gross margin percentage for the second quarter of 2018. Gross margin as a percentage of sales was positively impacted by:

- 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 2018; and
- a decrease in tooling sales which typically earn low margins for the Company.

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

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
Gross margin	\$	312,279	\$	294,464	17,815	6.0%
% of Sales		15.8%		15.6%		

The gross margin percentage for the six months ended June 30, 2019 of 15.8% increased as a percentage of sales by 0.2% as compared to the gross margin percentage for the six months ended June 30, 2018 of 15.6%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2018.

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

ADJUSTMENTS TO NET INCOME

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, 2019 to three months ended June 30, 2018 comparison

	<u>For the three months ended June 30, 2019</u>	<u>For the three months ended June 30, 2018</u>	<u>(a)-(b) Change</u>
	(a)	(b)	
NET INCOME (A)	\$28,122	\$55,727	(\$27,605)
Add Back - Unusual and Other Items:			
Impairment of assets (1)	18,502	-	18,502
Restructuring costs (2)	8,165	-	8,165
Unrealized loss (gain) on derivative instruments (3)	229	(229)	458
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$26,896	(\$229)	\$27,125
Tax impact of above items	(448)	29	(477)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	\$26,448	(\$200)	\$26,648
ADJUSTED NET INCOME (A + B)	\$54,570	\$55,527	(\$957)
Number of Shares Outstanding - Basic ('000)	82,747	86,814	
Adjusted Basic Net Earnings Per Share	\$0.66	\$0.64	
Number of Shares Outstanding - Diluted ('000)	82,922	87,426	
Adjusted Diluted Net Earnings Per Share	\$0.66	\$0.64	

TABLE B*Six months ended June 30, 2019 to six months ended June 30, 2018 comparison*

	For the six months ended June 30, 2019	For the six months ended June 30, 2018	(a)-(b) Change
	(a)	(b)	
NET INCOME (A)	\$83,390	\$111,686	(\$28,296)
Add Back - Unusual and Other Items:			
Impairment of assets (1)	18,502	-	18,502
Restructuring costs (2)	8,165	-	8,165
Unrealized loss on derivative instruments (3)	810	538	272
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$27,477	\$538	\$26,939
Tax impact of above items	(521)	(67)	(454)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	\$26,956	\$471	\$26,485
ADJUSTED NET INCOME (A + B)	\$110,346	\$112,157	(\$1,811)
Number of Shares Outstanding - Basic ('000)	83,052	86,780	
Adjusted Basic Net Earnings Per Share	\$1.33	\$1.29	
Number of Shares Outstanding - Diluted ('000)	83,246	87,364	
Adjusted Diluted Net Earnings Per Share	\$1.33	\$1.28	

(1) Impairment of assets

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling \$18.5 million related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives during the quarter. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration for where specific assets can be transferred to other facilities.

(2) Restructuring costs

Additions to the restructuring accrual during the second quarter of 2019 totaled \$8.2 million and represent employee-related severance resulting from the right-sizing of operating facilities in Brazil (\$6.2 million), Canada (\$1.7 million) and China (\$0.3 million).

(3) Unrealized loss on derivative instruments

As further described in note 7 of the financial statements and later on in the MD&A under "Investments", Martinrea holds 2,955,900 warrants in NanoXplore Inc., a publicly listed graphene company on the TSX Venture Exchange under the ticker symbol GRA. The warrants represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2019, the warrants had a fair value of \$1.4 million. Based on the fair value of the warrants as at June 30, 2019, an unrealized loss of \$0.2 million was recognized for the three months ended June 30, 2019 (2018 - unrealized gain \$0.2 million) and an unrealized loss of \$0.8 million was recognized for the six

months ended June 30, 2019 (2018 - unrealized loss of \$0.5 million), recorded in other finance income (expense) and added back to Adjusted Net Income.

NET INCOME

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Net Income	\$ 28,122	\$ 55,727	(27,605)	(49.5%)
Adjusted Net Income	\$ 54,570	\$ 55,527	(957)	(1.7%)
Net Earnings per Share				
Basic and Diluted	\$ 0.34	\$ 0.64		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.66	\$ 0.64		

Net income, before adjustments, for the second quarter of 2019 decreased by \$27.6 million to \$28.1 million from \$55.7 million for the second quarter of 2018 due largely to the unusual and other items incurred as explained in Table A under "Adjustments to Net Income". Excluding these unusual and other items, net income for the second quarter decreased by \$1.0 million to \$54.6 million or \$0.66 per share, on a basic and diluted basis, from \$55.5 million or \$0.64 per share, on a basic and diluted basis, for the second quarter of 2018. Despite the year-over-year decrease in Adjusted Net Income, Adjusted Net Earnings per share is up year-over-year due to the lower outstanding Martinrea share count as a result of the recent share repurchases the Company completed under a normal course issuer bid, as further explained in note 13 of the financial statements and later on in the MD&A under "Disclosure of Outstanding Share Data".

Adjusted Net Income for the second quarter of 2019, as compared to the second quarter of 2018, was negatively impacted by the following:

- operational inefficiencies and other costs at certain facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in depreciation expense due to the adoption of IFRS 16;
- a year-over-year increase in finance expense on the Company's revolving bank debt and equipment loans as a result of increased debt levels and borrowing rates, and interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$0.5 million.

These factors were partially offset by the following:

- higher gross profit on increased 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 2018;
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a year-over-year decrease in SG&A expense as previously discussed.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
Net Income	\$ 83,390	\$ 111,686	(28,296)	(25.3%)
Adjusted Net Income	\$ 110,346	\$ 112,157	(1,811)	(1.6%)
Net Earnings per Share				
Basic	\$ 1.00	\$ 1.29		
Diluted	\$ 1.00	\$ 1.28		
Adjusted Net Earnings per Share				
Basic	\$ 1.33	\$ 1.29		
Diluted	\$ 1.33	\$ 1.28		

Net Income, before adjustments, for the six months ended June 30, 2019 decreased by \$28.3 million to \$83.4 million from \$111.7 million for the six months ended June 30, 2018 due largely to the unusual and other items incurred 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, 2019 decreased to \$110.3 million or \$1.33 per share, on a basic and diluted basis, from \$112.2 million or \$1.29 per share, on a basic basis, and \$1.28 per share, on a diluted basis, for the six months ended June 30, 2018. Despite the year-over-year decrease in Adjusted Net Income, Adjusted Net Earnings per share is up year-over-year due to the lower outstanding Martinrea share count as a result of the recent share repurchases the Company completed under a normal course issuer bid, as further explained in note 13 of the financial statements and later on in the MD&A under "Disclosure of Outstanding Share Data".

Adjusted Net Income for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018, was negatively impacted by the following:

- operational inefficiencies and other costs at certain facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in depreciation expense due to the adoption of IFRS 16;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt and equipment loans as a result of increased debt levels and borrowing rates, and interest on lease liabilities as a result of the adoption of IFRS 16;
- the Company's share of loss of an associate in the amount of \$0.5 million; and
- a net foreign exchange loss of \$0.4 million for the six months ended June 30, 2019 compared to a net foreign exchange gain of \$1.4 million for the six months ended June 30, 2018.

These factors were offset by the following:

- higher gross profit on increased 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, 2018; and
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses.

DIVIDEND

A cash dividend of \$0.045 per share has been declared by the Board of Directors payable to shareholders of record on September 30, 2019, on or about October 15, 2019.

ABOUT MARTINREA

Martinrea is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea currently employs approximately 15,000 skilled and motivated people in 47 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

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

CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Tuesday, August 6, 2019 at 11:00 a.m. (Toronto time) which can be accessed by dialing 416-340-2218 (international: 001-416-340-2218) or toll free 800-377-0758. Please call 10 minutes prior to the start of the conference call.

If you have any teleconferencing questions, please call Ganesh Iyer at 416-749-0314.

There will also be a rebroadcast of the call available by dialing 905-694-9451 (international: 001-905-694-9451) or toll free 800-408-3053 (conference id – 9612791#). The rebroadcast will be available until August 25, 2019.

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements or belief in, expansion of and/or guidance or outlook as to future revenue, sales, gross margin, earnings, (adjusted) earnings per share, (adjusted) net earnings per share, operating income margins, expected results for the third quarter, 2019 and for the 2019 financial year, strength of the Company, the intention to pay down debt and maintain a strong balance sheet, program wins, the ramping up and launching of new programs and the financial impact of launches, pursuit of its strategies, the payment of dividends, the impact of trade issues and the performance of the economy, continued investments in the business, including strategic as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan", "outlook" 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, such as expected sales and industry production estimates, current foreign exchange rates (FX), timing of product launches and operational improvements during the period and current Board approved budgets. Certain forward-looking financial assumptions are presented as non-IFRS information, and we do not provide reconciliation to IFRS for such assumptions. 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 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;

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

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

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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 Fax: 289-982-3001

MANAGEMENT DISCUSSION AND ANALYSIS
OF OPERATING RESULTS AND FINANCIAL POSITION

For the three and six months ended June 30, 2019

The following management discussion and analysis (“MD&A”) was prepared as of August 6, 2019 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, 2019 (“financial statements”), as well as the Company’s audited financial statements and MD&A for the year ended December 31, 2018 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company’s Annual Information Form for the year ended December 31, 2018, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX:MRE) (“Martinrea” or the “Company”) is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea currently employs approximately 15,000 skilled and motivated people in 47 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

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

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 key financial metrics underlying the Company’s performance for the three and six months ended June 30, 2019 and 2018. Refer to the Company’s financial statements for the three and six months ended June 30, 2019 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, 2019		June 30, 2018		\$ Change	% Change
Sales	\$	948,533	\$	921,710	26,823	2.9%
Gross Margin		154,778		150,035	4,743	3.2%
Operating Income		57,302		81,675	(24,373)	(29.8%)
Net Income for the period		28,122		55,727	(27,605)	(49.5%)
Net Earnings per Share - Basic and Diluted	\$	0.34	\$	0.64	(0.30)	(46.9%)
<u>Non-IFRS Measures*</u>						
Adjusted Operating Income	\$	83,969	\$	81,675	2,294	2.8%
<i>% of Sales</i>		8.9%		8.9%		
Adjusted EBITDA		137,709		125,732	11,977	9.5%
<i>% of Sales</i>		14.5%		13.6%		
Adjusted Net Income		54,570		55,527	(957)	(1.7%)
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.66	\$	0.64	0.02	3.1%

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
Sales	\$	1,971,694	\$	1,885,610	86,084	4.6%
Gross Margin		312,279		294,464	17,815	6.0%
Operating Income		140,765		160,116	(19,351)	(12.1%)
Net Income for the period		83,390		111,686	(28,296)	(25.3%)
Net Earnings per Share - Basic	\$	1.00	\$	1.29	(0.29)	(22.5%)
Net Earnings per Share - Diluted	\$	1.00	\$	1.28	(0.28)	(21.9%)
Non-IFRS Measures*						
Adjusted Operating Income	\$	167,432	\$	160,116	7,316	4.6%
<i>% of Sales</i>		8.5%		8.5%		
Adjusted EBITDA		271,620		245,694	25,926	10.6%
<i>% of Sales</i>		13.8%		13.0%		
Adjusted Net Income		110,346		112,157	(1,811)	(1.6%)
Adjusted Net Earnings per Share - Basic	\$	1.33	\$	1.29	0.04	3.1%
Adjusted Net Earnings per Share - Diluted	\$	1.33	\$	1.28	0.05	3.9%

***Non-IFRS Measures**

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

Impact of the Adoption of IFRS 16, Leases

Effective January 1, 2019, the Company adopted the new accounting standard, IFRS 16, Leases ("IFRS 16"). In adopting the new standard, the Company used the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings, if any, on the date of initial application without restating comparative prior periods. As such, 2018 prior year comparatives have not been restated.

The adoption of the new standard resulted in the recognition of lease liabilities of \$228.6 million and right-of-use assets of \$223.8 million, net of accrued liabilities related to the leases of \$4.8 million, recognized as at January 1, 2019 in the interim condensed consolidated balance sheet. From an earnings perspective, while timing differences may exist, the new standard results in a decrease in operating rent expense essentially replaced by increases in finance and depreciation expenses as recognized in the interim condensed consolidated statement of operations. As such, the adoption of IFRS 16 did not have a significant impact on the Company's operating results and the financial metrics for the three and six months ended June 30, 2019 outlined above other than "Adjusted EBITDA". The adoption of IFRS 16 contributed approximately 7% of the year-over-year growth in Adjusted EBITDA due to the recognition of depreciation expense on right-of-use assets, in lieu of operating rent expense, as required by the new standard. The adoption of the new standard is further explained in "Recently adopted and applicable accounting standards and policies" in this MD&A and note 1(d)(i) of the financial statements for the three and six months ended June 30, 2019.

The following tables provide a reconciliation of IFRS "Net Income" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

	Three months ended June 30, 2019		Three months ended June 30, 2018	
Net Income	\$	28,122	\$	55,727
Unusual and Other Items (after-tax)*		26,448		(200)
Adjusted Net Income	\$	54,570	\$	55,527

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Net Income	\$	83,390	\$	111,686
Unusual and Other Items (after-tax)*		26,956		471
Adjusted Net Income	\$	110,346	\$	112,157

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

	Three months ended June 30, 2019		Three months ended June 30, 2018	
Net Income	\$	28,122	\$	55,727
Income tax expense		17,642		18,065
Other finance expense - excluding Unusual and Other Items*		853		1,205
Share of loss of an associate		512		-
Finance expense		9,944		6,907
Unusual and Other Items (before-tax)*		26,896		(229)
Adjusted Operating Income	\$	83,969	\$	81,675
Depreciation of property, plant and equipment		49,837		40,500
Amortization of intangible assets		4,051		3,333
Loss (gain) on disposal of property, plant and equipment		(148)		224
Adjusted EBITDA	\$	137,709	\$	125,732

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Net Income	\$	83,390	\$	111,686
Income tax expense		36,027		36,018
Other finance expense (income) - excluding Unusual and Other Items*		286		(1,534)
Share of loss of an associate		512		-
Finance expense		19,740		13,408
Unusual and Other Items (before-tax)*		27,477		538
Adjusted Operating Income	\$	167,432	\$	160,116
Depreciation of property, plant and equipment		96,731		78,558
Amortization of intangible assets		7,716		6,810
Loss (gain) on disposal of property, plant and equipment		(259)		210
Adjusted EBITDA	\$	271,620	\$	245,694

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

SALES

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019		Three months ended June 30, 2018		\$ Change	% Change
North America	\$	754,041	\$	701,847	52,194	7.4%
Europe		165,611		188,703	(23,092)	(12.2%)
Rest of the World		30,467		33,828	(3,361)	(9.9%)
Eliminations		(1,586)		(2,668)	1,082	40.6%
Total Sales	\$	948,533	\$	921,710	26,823	2.9%

The Company's consolidated sales for the second quarter of 2019 increased by \$26.8 million or 2.9% to \$948.5 million as compared to \$921.7 million for the second quarter of 2018. The total increase in sales was driven by a year-over-year increase in the North America operating segment, partially offset by decreases in Europe and the Rest of the World.

Sales for the second quarter of 2019 in the Company's North America operating segment increased by \$52.2 million or 7.4% to \$754.0 million from \$701.8 million for the second quarter of 2018. The increase was due to the launch of new programs during or subsequent to the second quarter of 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks and the new Chevrolet Blazer; and 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 2019 of approximately \$24.9 million as compared to the second quarter of 2018. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, in particular the Ford Escape, and including programs that ended production during or subsequent to the second quarter of 2018; and a decrease in tooling sales of \$7.9 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer.

Sales for the second quarter of 2019 in the Company's Europe operating segment decreased by \$23.1 million or 12.2% to \$165.6 million from \$188.7 million for the second quarter of 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Jaguar Land Rover, and including programs that ended production during or subsequent to the second quarter of 2018; a \$6.1 million decrease in tooling sales; and a \$5.3 million negative foreign exchange impact from the translation of Euro denominated production sales as compared to the second quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the second quarter of 2018, including a 2.0L aluminum engine block for Ford.

Sales for the second quarter of 2019 in the Company's Rest of the World operating segment decreased by \$3.4 million or 9.9% to \$30.5 million from \$33.8 million in the second quarter of 2018. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; a \$1.4 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2018; lower year-over-year production sales in the Company's operating facility in Brazil; and a \$0.3 million decrease in tooling sales. These negative factors were partially offset by the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018 but at significantly lower-than-expected volumes.

Overall tooling sales decreased by \$14.3 million to \$50.4 million for the second quarter of 2019 from \$64.8 million for the second quarter of 2018.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
North America	\$	1,565,178	\$	1,443,002	122,176	8.5%
Europe		356,006		374,426	(18,420)	(4.9%)
Rest of the World		53,799		74,209	(20,410)	(27.5%)
Eliminations		(3,289)		(6,027)	2,738	45.4%
Total Sales	\$	1,971,694	\$	1,885,610	86,084	4.6%

The Company's consolidated sales for the six months ended June 30, 2019 increased by \$86.1 million or 4.6% to \$1,971.7 million as compared to \$1,885.6 million for the six months ended June 30, 2018. The total increase in sales was driven by an increase in the North America operating segment, partially offset by year-over-year decreases in sales in Europe and the Rest of the World.

Sales for the six months ended June 30, 2019 in the Company's North America operating segment increased by \$122.2 million or 8.5% to \$1,565.2 million from \$1,443.0 million for the six months ended June 30, 2018. The increase was due to the launch of new programs during or subsequent to the six months ended June 30, 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, and the new Chevrolet Blazer; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2019 of approximately \$59.8 million as compared to the corresponding period of 2018; and an increase in tooling sales of \$12.8 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, including the Ford Escape and Jeep Wrangler, and programs that ended production during or subsequent to the six months ended June 30, 2018.

Sales for the six months ended June 30, 2019 in the Company's Europe operating segment decreased by \$18.4 million or 4.9% to \$356.0 million from \$374.4 million for the six months ended June 30, 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Jaguar Land Rover, and including programs that ended production during or subsequent to the six months ended June 30, 2018; and 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, 2019 of \$6.9 million as compared to the corresponding period of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the six months ended June 30, 2018, including a 2.0L aluminum engine block for Ford; and a \$3.3 million increase in tooling sales.

Sales for the six months ended June 30, 2019 in the Company's Rest of the World operating segment decreased by \$20.4 million or 27.5% to \$53.8 million from \$74.2 million for the six months ended June 30, 2018. The decrease was due to lower year-over-year OEM production volumes on the Ford Mondeo and Cadillac CT6 vehicle platforms in China; a \$5.7 million decrease in tooling sales; a \$2.3 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2018; and lower year-over-year production sales in the Company's operating facility in Brazil. These negative factors were partially offset by the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in the first quarter of 2018 but at significantly lower-than-expected volumes.

Overall tooling sales increased by \$10.4 million to \$146.4 million for the six months ended June 30, 2019 from \$136.0 million for the six months ended June 30, 2018.

GROSS MARGIN

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Gross margin	\$ 154,778	\$ 150,035	4,743	3.2%
% of Sales	16.3%	16.3%		

The gross margin percentage for the second quarter of 2019 of 16.3% was consistent with the gross margin percentage for the second quarter of 2018. Gross margin as a percentage of sales was positively impacted by:

- 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 2018; and
- a decrease in tooling sales which typically earn low margins for the Company.

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

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
Gross margin	\$ 312,279	\$ 294,464	17,815	6.0%
% of Sales	15.8%	15.6%		

The gross margin percentage for the six months ended June 30, 2019 of 15.8% increased as a percentage of sales by 0.2% as compared to the gross margin percentage for the six months ended June 30, 2018 of 15.6%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities; and
- general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the six months ended June 30, 2018.

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

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

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Selling, general & administrative	\$ 57,785	\$ 58,520	(735)	(1.3%)
% of Sales	6.1%	6.3%		

SG&A expense for the second quarter of 2019 decreased by \$0.7 million to \$57.8 million as compared to \$58.5 million for the second quarter of 2018. The decrease can be attributed to lower year-over-year incentive compensation related to outstanding deferred and restricted share units, a decrease in travel-related expenses and lower year-over-year operating rent expense as a result of the adoption of IFRS 16, which was essentially replaced with depreciation of right-of-use assets. These positive factors were partially offset by a general increase in employment and corresponding costs to support the evolution of the business and operating margin expansion initiatives.

SG&A expense as a percentage of sales decreased year-over-year to 6.1% for the second quarter of 2019 compared to 6.3% for the second quarter of 2018.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
Selling, general & administrative	\$ 118,643	\$ 114,862	3,781	3.3%
% of Sales	6.0%	6.1%		

SG&A expense for the six months ended June 30, 2019 increased by \$3.8 million to \$118.6 million as compared to \$114.9 million for the six months ended June 30, 2018. The increase can be attributed to increased costs incurred at new and/or expanded facilities launching and ramping up new work; a general increase in employment and corresponding costs to support the evolution of the business and operating margin expansion initiatives; and higher year-over-year incentive compensation based on the performance of the business, including an increase in deferred/restricted share units and stock option expense; partially offset by a decrease in travel-related expenses and lower year-over-year operating rent expense as a result of the adoption of IFRS 16, which was essentially replaced with depreciation of right-of-use assets.

SG&A expense as a percentage of sales decreased year-over-year to 6.0% for the six months ended June 30, 2019 compared to 6.1% for the six months ended June 30, 2018.

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

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	\$ 45,945	\$ 37,885	8,060	21.3%
Depreciation of PP&E and right-of-use assets (non-production)	3,892	2,615	1,277	48.8%
Amortization of customer contracts and relationships	496	538	(42)	(7.8%)
Amortization of development costs	3,555	2,795	760	27.2%
Total depreciation and amortization	\$ 53,888	\$ 43,833	10,055	22.9%

Total depreciation and amortization expense for the second quarter of 2019 increased by \$10.1 million to \$53.9 million as compared to \$43.8 million for the second quarter of 2018. The increase in total depreciation and amortization expense was primarily due to the adoption of IFRS 16, which added a total of \$8.0 million in incremental depreciation expense on right-of-use assets.

A significant portion of the Company's recent investments in PP&E relates to various new programs that commenced during or subsequent to the second quarter of 2018 and new and replacement programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales increased year-over-over to 4.8% for the second quarter of 2019 from 4.1% for the second quarter of 2018 due mainly to the adoption of IFRS 16, which added incremental depreciation expense on right-of-use assets.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	\$ 89,374	\$ 73,497	15,877	21.6%
Depreciation of PP&E and right-of-use assets (non-production)	7,357	5,061	2,296	45.4%
Amortization of customer contracts and relationships	1,033	1,068	(35)	(3.3%)
Amortization of development costs	6,683	5,742	941	16.4%
Total depreciation and amortization	\$ 104,447	\$ 85,368	19,079	22.3%

Total depreciation and amortization expense for the six months ended June 30, 2019 increased by \$19.1 million to \$104.4 million as compared to \$85.4 million for the six months ended June 30, 2018. Consistent with the year-over-year increase in the second quarter of 2019 as explained above, the increase in total depreciation and amortization expense for the six months ended June 30, 2019 was primarily due to the adoption of IFRS 16, which added a total of \$15.7 million in incremental depreciation expense on right-of-use assets.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales increased year-over-year to 4.5% for the six months ended June 30, 2019 from 3.9% for the six months ended June 30, 2018 due mainly to the adoption of IFRS 16, which added incremental depreciation expense on right-of-use assets.

ADJUSTMENTS TO NET INCOME

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, 2019 to three months ended June 30, 2018 comparison

	<u>For the three months ended June 30, 2019</u>	<u>For the three months ended June 30, 2018</u>	<u>(a)-(b) Change</u>
	<u>(a)</u>	<u>(b)</u>	
NET INCOME (A)	\$28,122	\$55,727	(\$27,605)
Add Back - Unusual and Other Items:			
Impairment of assets (1)	18,502	-	18,502
Restructuring costs (2)	8,165	-	8,165
Unrealized loss (gain) on derivative instruments (3)	229	(229)	458
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$26,896	(\$229)	\$27,125
Tax impact of above items	(448)	29	(477)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	\$26,448	(\$200)	\$26,648
ADJUSTED NET INCOME (A + B)	\$54,570	\$55,527	(\$957)
Number of Shares Outstanding - Basic ('000)	82,747	86,814	
Adjusted Basic Net Earnings Per Share	\$0.66	\$0.64	
Number of Shares Outstanding - Diluted ('000)	82,922	87,426	
Adjusted Diluted Net Earnings Per Share	\$0.66	\$0.64	

TABLE B*Six months ended June 30, 2019 to six months ended June 30, 2018 comparison*

	For the six months ended June 30, 2019	For the six months ended June 30, 2018	(a)-(b) Change
	(a)	(b)	
NET INCOME (A)	\$83,390	\$111,686	(\$28,296)
Add Back - Unusual and Other Items:			
Impairment of assets (1)	18,502	-	18,502
Restructuring costs (2)	8,165	-	8,165
Unrealized loss on derivative instruments (3)	810	538	272
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	\$27,477	\$538	\$26,939
Tax impact of above items	(521)	(67)	(454)
TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)	\$26,956	\$471	\$26,485
ADJUSTED NET INCOME (A + B)	\$110,346	\$112,157	(\$1,811)
Number of Shares Outstanding - Basic ('000)	83,052	86,780	
Adjusted Basic Net Earnings Per Share	\$1.33	\$1.29	
Number of Shares Outstanding - Diluted ('000)	83,246	87,364	
Adjusted Diluted Net Earnings Per Share	\$1.33	\$1.28	

(1) Impairment of assets

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling \$18.5 million related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives during the quarter. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration for where specific assets can be transferred to other facilities.

(2) Restructuring costs

Additions to the restructuring accrual during the second quarter of 2019 totaled \$8.2 million and represent employee-related severance resulting from the right-sizing of operating facilities in Brazil (\$6.2 million), Canada (\$1.7 million) and China (\$0.3 million).

(3) Unrealized loss on derivative instruments

As further described in note 7 of the financial statements and later on in this MD&A under "Investments", Martinrea holds 2,955,900 warrants in NanoXplore Inc., a publicly listed graphene company on the TSX Venture Exchange under the ticker symbol GRA. The warrants represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2019, the warrants had a fair value of \$1.4 million. Based on the fair value of the warrants as at June 30, 2019, an unrealized loss of \$0.2 million was recognized for the three months ended June 30, 2019 (2018 - unrealized gain \$0.2 million) and an unrealized loss of \$0.8 million was recognized for the six months ended June 30, 2019 (2018 - unrealized loss of \$0.5 million), recorded in other finance income (expense) and added back to Adjusted Net Income.

NET INCOME

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Net Income	\$ 28,122	\$ 55,727	(27,605)	(49.5%)
Adjusted Net Income	\$ 54,570	\$ 55,527	(957)	(1.7%)
Net Earnings per Share				
Basic and Diluted	\$ 0.34	\$ 0.64		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.66	\$ 0.64		

Net income, before adjustments, for the second quarter of 2019 decreased by \$27.6 million to \$28.1 million from \$55.7 million for the second quarter of 2018 due largely to the unusual and other items incurred as explained in Table A under "Adjustments to Net Income". Excluding these unusual and other items, net income for the second quarter decreased by \$1.0 million to \$54.6 million or \$0.66 per share, on a basic and diluted basis, from \$55.5 million or \$0.64 per share, on a basic and diluted basis, for the second quarter of 2018. Despite the year-over-year decrease in Adjusted Net Income, Adjusted Net Earnings per share is up year-over-year due to the lower outstanding Martinrea share count as a result of the recent share repurchases the Company completed under a normal course issuer bid, as further explained in note 13 of the financial statements and later on in this MD&A under "Disclosure of Outstanding Share Data".

Adjusted Net Income for the second quarter of 2019, as compared to the second quarter of 2018, was negatively impacted by the following:

- operational inefficiencies and other costs at certain facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in depreciation expense due to the adoption of IFRS 16;
- a year-over-year increase in finance expense on the Company's revolving bank debt and equipment loans as a result of increased debt levels and borrowing rates, and interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$0.5 million.

These factors were partially offset by the following:

- higher gross profit on increased 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 2018;
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a year-over-year decrease in SG&A expense as previously discussed.

Three months ended June 30, 2019 actual to guidance comparison:

On May 2, 2019, the Company provided the following guidance for the second quarter of 2019:

	Guidance	Actual
Production sales (in millions)	\$ 870 - 910	\$ 898
Adjusted Net Earnings per Share		
Basic & Diluted	\$ 0.64 - 0.68	\$ 0.66

For the second quarter of 2019, production sales of \$898 million and Adjusted Net Earnings per Share of \$0.66 were within the published sales and earnings guidance ranges provided.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
Net Income	\$	83,390	\$	111,686	(28,296)	(25.3%)
Adjusted Net Income	\$	110,346	\$	112,157	(1,811)	(1.6%)
Net Earnings per Share						
Basic	\$	1.00	\$	1.29		
Diluted	\$	1.00	\$	1.28		
Adjusted Net Earnings per Share						
Basic	\$	1.33	\$	1.29		
Diluted	\$	1.33	\$	1.28		

Net Income, before adjustments, for the six months ended June 30, 2019 decreased by \$28.3 million to \$83.4 million from \$111.7 million for the six months ended June 30, 2018 due largely to the unusual and other items incurred 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, 2019 decreased to \$110.3 million or \$1.33 per share, on a basic and diluted basis, from \$112.2 million or \$1.29 per share, on a basic basis, and \$1.28 per share, on a diluted basis, for the six months ended June 30, 2018. Despite the year-over-year decrease in Adjusted Net Income, Adjusted Net Earnings per share is up year-over-year due to the lower outstanding Martinrea share count as a result of the recent share repurchases the Company completed under a normal course issuer bid, as further explained in note 13 of the financial statements and later on in this MD&A under "Disclosure of Outstanding Share Data".

Adjusted Net Income for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018, was negatively impacted by the following:

- operational inefficiencies and other costs at certain facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in depreciation expense due to the adoption of IFRS 16;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in finance expense on the Company's revolving bank debt and equipment loans as a result of increased debt levels and borrowing rates, and interest on lease liabilities as a result of the adoption of IFRS 16;
- the Company's share of loss of an associate in the amount of \$0.5 million; and
- a net foreign exchange loss of \$0.4 million for the six months ended June 30, 2019 compared to a net foreign exchange gain of \$1.4 million for the six months ended June 30, 2018.

These factors were offset by the following:

- higher gross profit on increased 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, 2018; and
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	Three months ended June 30, 2019		Three months ended June 30, 2018		\$ Change	% Change
Additions to PP&E	\$	65,568	\$	69,574	(4,006)	(5.8%)

Additions to PP&E decreased by \$4.0 million to \$65.6 or 6.9% of sales in the second quarter of 2019 from \$69.6 million or 7.5% of sales in the second quarter of 2018 due in large part to the timing of expenditures. The Company continues to make investments in the business, including in various sales and margin growth projects and in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	Six months ended June 30, 2019		Six months ended June 30, 2018		\$ Change	% Change
Additions to PP&E	\$	133,881	\$	119,911	13,970	11.7%

Additions to PP&E increased by \$14.0 million year-over-year to \$133.9 million or 6.8% of sales for the six months ended June 30, 2019 from \$119.9 million or 6.4% of sales for the six months ended June 30, 2018 due generally to the timing of expenditures. As explained above, the Company continues to make investments in the business, including in various sales and margin growth projects and in both new and replacement business, as the Company's global footprint expands and as it executes on its growing backlog of new business in all its various product offerings.

SEGMENT ANALYSIS

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

Three months ended June 30, 2019 to three months ended June 30, 2018 comparison

	SALES		OPERATING INCOME (LOSS)	
	Three months ended June 30, 2019	Three months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018
North America	\$ 754,041	\$ 701,847	\$ 71,677	\$ 67,159
Europe	165,611	188,703	10,712	14,747
Rest of the World	30,467	33,828	1,580	(231)
Eliminations	(1,586)	(2,668)	-	-
Adjusted Operating Income	-	-	\$ 83,969	\$ 81,675
Unusual and Other Items*	-	-	(26,667)	-
Total	\$ 948,533	\$ 921,710	\$ 57,302	\$ 81,675

* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$26.7 million of unusual and other items for the second quarter of 2019, \$1.7 million was incurred in North America and \$25.0 million in the Rest of the World. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

North America

Adjusted Operating Income in North America increased by \$4.5 million to \$71.7 million or 9.5% of sales for the second quarter of 2019 from \$67.2 million or 9.6% of sales for the second quarter of 2018 due generally to a \$52.2 million increase in sales as previously explained. Adjusted Operating Income as a percentage of sales for the second quarter of 2019 remained essentially consistent year-over-year. Productivity and efficiency improvements at certain operating facilities and a positive sales mix, including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2018 were essentially offset by operational inefficiencies and other costs at certain other facilities, including higher research and development expenses, as previously explained, and upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

Europe

Adjusted Operating Income in Europe decreased by \$4.0 million to \$10.7 million or 6.5% of sales for the second quarter of 2019 from \$14.7 million or 7.8% of sales for the second quarter of 2018, on lower sales as previously explained. Adjusted Operating Income as a percentage of sales decreased year-over-year due generally to sales mix, including lower production volumes on certain platforms, and upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; partially offset by productivity and efficiency improvements at certain operating facilities.

Rest of the World

Adjusted operating results for the Rest of the World operating segment improved year-over-year on lower sales, as previously explained, from an operating loss of \$0.2 million for the second quarter of 2018 to operating income of \$1.6 million or 5.2% of sales for the second quarter of 2019 due to a positive sales mix, including the launch of the new business in China, lower launch related costs and productivity and efficiency improvements across the operating facilities in the segment.

Six months ended June 30, 2019 to six months ended June 30, 2018 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2019	Six months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
North America	\$ 1,565,178	\$ 1,443,002	\$ 142,802	\$ 128,627
Europe	356,006	374,426	25,999	30,582
Rest of the World	53,799	74,209	(1,369)	907
Eliminations	(3,289)	(6,027)	-	-
Adjusted Operating Income	-	-	\$ 167,432	\$ 160,116
Unusual and Other Items*	-	-	(26,667)	-
Total	\$ 1,971,694	\$ 1,885,610	\$ 140,765	\$ 160,116

* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$26.7 million of unusual and other items for the six months ended June 30, 2019, \$1.7 million was incurred in North America and \$25.0 million in the Rest of the World. 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 \$14.2 million to \$142.8 million or 9.1% of sales for the six months ended June 30, 2019 from \$128.6 million or 8.9% of sales for the six months ended June 30, 2018 due generally to a \$122.2 million year-over-year increase in sales as previously discussed. Adjusted Operating Income as a percentage of sales for the six months ended June 30, 2019 increased year-over-year due to productivity and efficiency improvements at certain operating facilities and a positive sales mix, including new and replacement programs that launched, and old programs that ended production, during or subsequent to the second quarter of 2018; partially offset by operational inefficiencies and other costs at certain other facilities, including higher research and development and SG&A expenses, as previously explained, and upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

Europe

Adjusted Operating Income in Europe decreased by \$4.6 million to \$26.0 million or 7.3% of sales for the six months ended June 30, 2019 from \$30.6 million or 8.2% of sales for the six months ended June 30, 2018 on lower sales as previously explained. Adjusted Operating Income as a percentage of sales decreased year-over-year due generally to sales mix, including lower production volumes on certain platforms, and upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; partially offset by productivity and efficiency improvements at certain operating facilities.

Rest of the World

Adjusted operating results for the Rest of the World operating segment decreased year-over-year to an operating loss of \$1.4 million for the six months ended June 30, 2019 from operating income of \$0.9 million for the six months ended June 30, 2018 due mainly to lower margin contribution from a \$20.4 million year-over-year decrease in sales, as previously explained. The negative impact from the lower sales was partially offset by productivity and efficiency improvements across the operating facilities in the segment.

SUMMARY OF QUARTERLY RESULTS **(unaudited)**

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	948,533	1,023,161	926,154	851,136	921,710	963,900	878,642	838,535
Gross Margin	154,778	157,501	134,567	127,130	150,035	144,429	124,042	113,418
Net Income for the period	28,122	55,268	37,816	36,381	55,727	55,959	32,366	36,022
Net Income attributable to equity holders of the Company	28,122	55,268	37,816	36,381	55,727	55,959	32,366	36,229
Adjusted Net Income attributable to equity holders of the Company *	54,570	55,776	43,840	37,169	55,527	56,630	43,179	36,263
Basic Net Earnings per Share	0.34	0.66	0.44	0.42	0.64	0.65	0.37	0.42
Diluted Net Earnings per Share	0.34	0.66	0.44	0.42	0.64	0.64	0.37	0.42
Adjusted Basic and Diluted Net Earnings per Share *	0.66	0.67	0.51	0.43	0.64	0.65	0.50	0.42

***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" "Adjusted EBITDA" and "Free Cash Flow". Please refer to the Company's previously filed annual and interim MD&A of operating results and financial position for the fiscal years 2018 and 2017 for a full reconciliation of IFRS to non-IFRS measures.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remains solid, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at June 30, 2019, the Company had total equity of \$1,175.8 million (December 31, 2018 - \$1,151.5 million). As at June 30, 2019, the Company's ratio of current assets to current liabilities was 1.42:1 (December 31, 2018 - 1.35:1). The Company's current working capital level of \$372.5 million at June 30, 2019 is up from \$312.6 million at December 31, 2018 due generally to seasonality, as working capital levels tend to increase at the beginning of any given year after the typical industry wide December holiday shutdowns as production ramps back up, and decrease at the end of any given year heading into the December holiday shutdowns as production ramps down. 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 flow

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 127,770	\$ 125,712	2,058	1.6%
Change in non-cash working capital items	24,177	(8,911)	33,088	(371.3%)
Interest paid	151,947	116,801	35,146	30.1%
Income taxes paid	(11,585)	(7,311)	(4,274)	58.5%
	(11,822)	(30,900)	19,078	(61.7%)
Cash provided by operating activities	128,540	78,590	49,950	63.6%
Cash used in financing activities	(26,554)	(6,356)	(20,198)	317.8%
Cash used in investing activities	(85,912)	(80,862)	(5,050)	6.2%
Effect of foreign exchange rate changes on cash and cash equivalents	(2,381)	2,491	(4,872)	(195.6%)
Increase (decrease) in cash and cash equivalents	\$ 13,693	\$ (6,137)	19,830	(323.1%)

Cash provided by operating activities during the second quarter of 2019 was \$128.5 million, compared to cash provided by operating activities of \$78.6 million in the corresponding period of 2018. The components for the second quarter of 2019 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$127.8 million;
- working capital items source of cash of \$24.2 million comprised of a decrease in trade and other receivables of \$58.0 million, and a decrease in prepaid expenses and deposits of \$0.1 million; partially offset by an increase in inventories of \$17.4 million and a decrease in trade, other payables and provisions of \$16.6 million;
- interest paid (excluding capitalized interest) of \$11.6 million; including \$2.3 million related to interest on lease liabilities resulting from the adoption of IFRS 16; and
- income taxes paid of \$11.8 million.

Cash used by financing activities during the second quarter of 2019 was \$26.6 million, compared to cash used in financing activities of \$6.4 million in the corresponding period of 2018, as a result of a \$16.0 million net decrease in long-term debt (reflecting repayments made on outstanding equipment loans), the repayment of lease liabilities from the adoption of IFRS 16 of \$6.8 million, and \$3.7 million in dividends paid.

Cash used in investing activities during the second quarter of 2019 was \$85.9 million, compared to \$80.9 million in the corresponding period of 2018. The components for the second quarter of 2019 primarily include the following:

- cash additions to PP&E of \$83.0 million;
- capitalized development costs relating to upcoming new program launches of \$3.1 million; partially offset by
- proceeds from the disposal of PP&E of \$0.2 million.

Taking into account the opening cash balance of \$76.4 million at the beginning of the second quarter of 2019, and the activities described above, the cash and cash equivalents balance at June 30, 2019 was \$90.1 million.

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 265,042	\$ 248,119	16,923	6.8%
Change in non-cash working capital items	(13,920)	(20,915)	6,995	(33.4%)
	251,122	227,204	23,918	10.5%
Interest paid	(22,169)	(14,244)	(7,925)	55.6%
Income taxes paid	(40,287)	(62,578)	22,291	(35.6%)
Cash provided by operating activities	188,666	150,382	38,284	25.5%
Cash provided by financing activities	14,280	5,452	8,828	161.9%
Cash used in investing activities	(180,162)	(155,217)	(24,945)	16.1%
Effect of foreign exchange rate changes on cash and cash equivalents	(2,806)	3,448	(6,254)	(181.4%)
Increase in cash and cash equivalents	\$ 19,978	\$ 4,065	15,913	391.5%

Cash provided by operating activities during the six months ended June 30, 2019 was \$188.7 million, compared to cash provided by operating activities of \$150.4 million in the corresponding period of 2018. The components for the six months ended June 30, 2019 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$265.0 million;
- working capital items use of cash of \$13.9 million comprised of an increase in trade and other receivables of \$54.9 million, an increase in inventories of \$1.3 million, and an increase in prepaid expenses and deposits of \$2.9 million; partially offset by an increase in trade, other payables and provisions of \$45.2 million;
- interest paid (excluding capitalized interest) of \$22.2 million, including \$3.9 million related to interest on lease liabilities resulting from the adoption of IFRS 16; and
- income taxes paid of \$40.3 million.

Cash provided by financing activities during the six months ended June 30, 2019 was \$14.3 million, compared to cash provided by financing activities of \$5.5 million in the corresponding period of 2018, as a result of a \$61.3 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility and new equipment loans, partially offset by repayments made on outstanding equipment loans), and \$0.9 million in proceeds from the exercise of employee stock options; partially offset by the repurchase of common shares by way of normal course issuer bid (as described in note 13 of the financial statements for the three and six months ended June 30, 2019) of \$26.3 million, repayment of lease liabilities from the adoption of IFRS 16 of \$14.1 million, and \$7.5 million in dividends paid.

Cash used in investing activities during the six months ended June 30, 2019 was \$180.2 million, compared to \$155.2 million in the corresponding period of 2018. The components for the six months ended June 30, 2019 primarily include the following:

- cash additions to PP&E of \$160.4 million;
- capitalized development costs relating to upcoming new program launches of \$5.4 million;
- an investment in NanoXplore Inc. (as described in note 7 of the financial statements for the three and six months ended June 30, 2019) of \$15.0 million; partially offset by
- proceeds from the disposal of PP&E of \$0.7 million.

Taking into account the opening cash balance of \$70.2 million at the beginning of 2019, and the activities described above, the cash and cash equivalents balance at June 30, 2019 was \$90.1 million.

Free Cash Flow

	Three months ended June 30, 2019	Three months ended June 30, 2018	\$ Change
Adjusted EBITDA	\$ 137,709	\$ 125,732	11,977
Add (deduct):			
Change in non-cash working capital items	24,177	(8,911)	33,088
Cash purchase of property, plant and equipment	(83,028)	(79,849)	(3,179)
Cash proceeds on disposal of property, plant and equipment	232	203	29
Capitalized development costs	(3,116)	(3,492)	376
Interest on long term debt, net of capitalized interest	(7,628)	(6,907)	(721)
Cash income taxes	(11,822)	(30,900)	19,078
Free cash flow	56,524	(4,124)	60,648

Free cash flow increased this quarter primarily as a result of:

- a decrease in non-cash working capital items as previously noted;
- lower cash income taxes;
- higher Adjusted EBITDA - approximately 7% of the year-over-year growth relates to the adoption of IFRS 16; partially offset by
- higher purchases of property, plant and equipment; and
- higher interest on long-term debt as a result of increased debt levels and borrowing rates.

All tooling-related working capital accounts, including inventory, trade and other receivables and trade and other payables on a net basis, decreased to \$94.3 million as at June 30, 2019, from \$115.2 million as at December 31, 2018, and increased from \$84.4 million as at June 30, 2018.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the three months ended June 30, 2019 and 2018:

	Three months ended June 30, 2019	Three months ended June 30, 2018
Cash provided by operating activities	\$ 128,540	\$ 78,590
Add (deduct):		
Cash purchases of property, plant and equipment	(83,028)	(79,849)
Cash proceeds on disposal of property, plant and equipment	232	203
Capitalized development costs	(3,116)	(3,492)
Restructuring costs	8,165	-
Interest on long-term debt, net of capitalized interest	(7,628)	(6,907)
Interest paid	11,585	7,311
Unrealized gain (loss) on foreign exchange contracts	842	(839)
Deferred and restricted share units benefit (expense)	204	(1,078)
Stock options expense	(314)	(54)
Pension and other post-employment benefits expense	(1,186)	(1,195)
Contributions made to pension and other post-retirement benefits expense	1,375	1,981
Net unrealized foreign exchange loss and other income	853	1,205
Free cash flow	\$ 56,524	\$ (4,124)

	Six months ended June 30, 2019	Six months ended June 30, 2018	\$ Change
Adjusted EBITDA	\$ 271,620	\$ 245,694	25,926
Add (deduct):			
Change in non-cash working capital items	(13,920)	(20,915)	6,995
Cash purchase of property, plant and equipment	(160,446)	(151,302)	(9,144)
Cash proceeds on disposal of property, plant and equipment	715	973	(258)
Capitalized development costs	(5,432)	(6,484)	1,052
Interest on long term debt, net of capitalized interest	(15,844)	(13,408)	(2,436)
Cash income taxes	(40,287)	(62,578)	22,291
Free cash flow	36,406	(8,020)	44,426

Free cash flow increased during the six months ended June 30, 2019 primarily as a result of:

- higher Adjusted EBITDA - approximately 7% of the year-over-year growth relates to the adoption of IFRS 16;
- lower cash income taxes;
- an increase in non-cash working capital items as previously noted; and
- lower capitalized development costs; partially offset by
- higher purchases of property, plant and equipment; and
- higher interest on long-term debt as a result of increased debt levels and borrowing rates.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the six months ended June 30, 2019 and 2018:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash provided by operating activities	\$ 188,666	\$ 150,382
Add (deduct):		
Cash purchases of property, plant and equipment	(160,446)	(151,302)
Cash proceeds on disposal of property, plant and equipment	715	973
Capitalized development costs	(5,432)	(6,484)
Restructuring costs	8,165	-
Interest on long-term debt, net of capitalized interest	(15,844)	(13,408)
Interest paid	22,169	14,244
Unrealized gain on foreign exchange contracts	259	465
Deferred and restricted share units expense	(1,928)	(1,380)
Stock options expense	(628)	(228)
Pension and other post-employment benefits expense	(2,209)	(2,372)
Contributions made to pension and other post-retirement benefits expense	2,633	2,624
Net unrealized foreign exchange loss (gain) and other income	286	(1,534)
Free cash flow	\$ 36,406	\$ (8,020)

Financing

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

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of \$370 million and US \$420 million (up from \$350 million and US \$400 million, respectively);
- available asset 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 repayment provisions.

As at June 30, 2019, the Company had drawn US \$292,000 (December 31, 2018 – US \$286,000) on the U.S. revolving credit line and \$333,000 (December 31, 2018 - \$273,000) on the Canadian revolving credit line.

Debt leverage ratios:

Excluding the impact of IFRS 16:	June 30, 2019		March 31, 2019		December 31, 2018
Long-term debt	\$	785,843	\$	809,552	\$ 740,717
		785,843		809,552	740,717
Less: Cash and cash equivalents		(90,140)		(76,447)	(70,162)
Net Debt	\$	695,703	\$	733,105	\$ 670,555
Trailing 12-month Adjusted EBITDA*	\$	469,140	\$	466,347	\$ 461,223
Net Debt to Adjusted EBITDA ratio*		1.48x		1.57x	1.45x

*Debt leverage ratios for 2019 periods have been calculated using Adjusted EBITDA inclusive of rent expense as if IFRS 16 was not adopted.

Including the impact of IFRS 16:	June 30, 2019		March 31, 2019		January 1, 2019
Long-term debt	\$	785,843	\$	809,552	\$ 740,717
Lease liabilities		217,654		221,754	228,623
		1,003,497		1,031,306	969,340
Less: Cash and cash equivalents		(90,140)		(76,447)	(70,162)
Net Debt	\$	913,357	\$	954,859	\$ 899,178
Trailing 12-month Adjusted EBITDA*	\$	503,162	\$	499,194	\$ 492,630
Net Debt to Adjusted EBITDA ratio*		1.82x		1.91x	1.83x

*As comparative periods prior to 2019 have not been restated, debt leverage ratios have been calculated using proforma Adjusted EBITDA to remove rent expense as if IFRS 16 was adopted retrospectively.

The Company's net debt (excluding the impact of adopting IFRS 16 and as outlined above) decreased by \$37.4 million during the quarter to \$695.7 million from \$733.1 million at the end of the first quarter of 2019. The decrease was largely the result of positive free cash flow generated during the quarter, as previously explained, which was partially applied against the Company's debt levels. As a result, the Company's net debt to Adjusted EBITDA ratio (excluding the impact of adopting IFRS 16 and as outlined above) decreased during the quarter to 1.48x from 1.57x at the end of the first quarter of 2019.

The Company was in compliance with its debt covenants as at June 30, 2019. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16.

On January 30, 2019, the Company finalized an additional equipment loan in the amount of €10,900 (\$16,602) repayable in monthly installments over six years starting in 2020 at a fixed annual interest rate of 1.40%.

Dividends

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends were to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter.

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

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 February 28, 2019 and available through SEDAR at www.sedar.com which are incorporated herein by reference. These trends and 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 should they occur.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 6, 2019, the Company had 82,746,605 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 6, 2019, options to acquire 2,335,200 common shares were outstanding.

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

During 2018, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of \$25,513, resulting in a decrease to stated capital of \$17,699 and a decrease to retained earnings of \$7,814. The shares were purchased and cancelled directly under the NCIB.

At the end of 2018, the Company entered into an Automatic Share Purchase Program ("ASPP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares under the ASPP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASPP for an aggregate purchase price of \$26,335, resulting in a decrease to stated capital of \$18,092 and a decrease to retained earnings of \$8,243. The shares were purchased and cancelled directly under the NCIB.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended June 30, 2019, 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, 2018.

Guarantees

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2016 that provide direct financing for specific programs. 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. 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, 2019, the amount of the off balance sheet program financing was \$34.9 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

Hedge Accounting

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

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

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

Cash flow hedges:

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

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

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

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

Net investment hedges:

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

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at June 30, 2019.

Financial Instruments

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

At June 30, 2019, the Company had committed to the following foreign exchange 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	\$ 41,800	1.3195	1
Buy Mexican Peso	\$ 18,843	19.1050	1

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax gain of \$0.3 million and was recorded in trade and other receivables (December 31, 2018 – pre-tax gain of \$0.1 million recorded in trade and other receivables).

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	\$ 46,900	1.2780	42

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax loss of \$1.2 million and was recorded in trade and other payables (December 31, 2018 – pre-tax loss of \$4.1 million recorded in trade and other payables).

INVESTMENTS

The Company holds an investment in NanoXplore Inc. (“NanoXplore”), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. NanoXplore is 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.

As at December 31, 2018, the Company held 5,911,800 common shares and 2,955,900 warrants in NanoXplore. On January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of \$14,999 through a private placement offering, increasing its holdings in NanoXplore to 17,449,800 common shares, representing a 16% equity interest in the company. Prior to January 11, 2019, the Company’s investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income. Effective January 11, 2019, the Company’s investment in NanoXplore is now being accounted for using the equity method.

	Investment in common shares of NanoXplore
Opening cost base of investment after January 11, 2019 private placement	\$ 22,685
Share of loss for the period	(512)
Share of other comprehensive income for the period	24
Net balance as of June 30, 2019	\$ 22,197

The Company applies equity accounting to its investment based on NanoXplore’s most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company’s reporting date which represents a reasonable estimate of the change in the Company’s interest.

Upon transition to the equity accounting method of the Company’s investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of \$4,314 from other comprehensive income to retained earnings.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2019, the warrants had a fair value of \$1,398. Based on the fair value of the warrants as at June 30, 2019, an unrealized loss of \$229 was recognized for the three months ended June 30, 2019 (2018 - unrealized gain of \$229) and an unrealized loss of \$810 was recognized for the six months ended June 30, 2019 (2018 - unrealized loss of \$538), recorded in other finance income (expense) in the interim condensed consolidated statement of operations.

Subsequent to the quarter-end, on July 31, 2019, the Company exercised 2,750,000 of the outstanding warrants. The warrants had an exercise price of \$0.70 per share for a total consideration paid of \$1.9 million.

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.

RECENTLY ADOPTED NEW ACCOUNTING STANDARDS

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or short term in nature. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on its interim condensed consolidated balance sheet, as well as a decrease in operating rent expense, and increases in finance and depreciation expenses, as recognized in the interim condensed consolidated statement of operations. The standard did not have a significant impact on the Company's overall consolidated operating results.

The Company adopted IFRS 16, effective January 1, 2019, under the modified retrospective approach. Comparatives for 2018 were not restated. At transition, the Company elected to use the practical expedient available under the standard that allows lease assessments made under IAS 17 and IFRIC 4 to be used for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified after January 1, 2019.

Upon initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rates as at January 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.2%. For leases previously classified as operating leases under IAS 17, the Company measured right-of-use assets equal to the corresponding lease liabilities adjusted for any accrued payments related to that lease. For leases previously classified as finance leases, the Company measured right-of-use assets and lease liabilities at the carrying amounts of the finance lease assets and liabilities immediately before the date of initial application.

As such, on January 1, 2019, the Company recorded lease liabilities of \$228,623 and right-of-use assets of \$223,786, net of liabilities related to the leases of \$4,837, recognized in the interim condensed consolidated balance sheet immediately before the date of initial application, with no net impact on retained earnings.

The Company elected to use the following practical expedients upon initial application in accordance with the provisions of IFRS 16:

- a) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- b) Reliance on the Company's assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application;
- c) Accounting for all leases with a lease term that ends within 12 months of initial application in the same way as short-term leases;
- d) Exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application; and
- e) Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options.

On transition, the Company elected to use the recognition exemptions on short-term leases or low-value leases, however, in the future, may choose to elect the recognition exemptions on a class-by-class and lease-by-lease basis.

For leases of land and buildings, the Company elected to separate fixed non-lease components from lease components and account for each separately. For leases of manufacturing equipment and other assets, the Company elected to not separate fixed non-lease components from lease components and instead account for both as a single lease component.

The following table reconciles the Company's operating lease commitments as at December 31, 2018, as previously disclosed in the Company's annual audited consolidated financial statements for the year-ended December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

Operating lease commitments at December 31, 2018	\$	240,052
Operating lease commitments discounted using the related incremental borrowing rates as of January 1, 2019	\$	198,282
Finance lease liabilities recognized as of December 31, 2018	\$	(463)
Recognition exemption for:		
Short-term leases		(4,150)
Low value leases		(70)
Extension and termination options reasonably certain to be exercised		46,570
Leases starting after January 1, 2019		(11,546)
Lease liabilities recognized as of January 1, 2019	\$	228,623

Refer to note 1(d)(i) of the financial statements for the Company's new accounting policies to be used for accounting for leases under IFRS 16.

FORWARD-LOOKING INFORMATION

This MD&A and the documents incorporated by reference therein contains forward looking statements within the meaning of applicable Canadian securities laws including those related to the Company's expectations as to, or its views, or beliefs in or on, the growth of the Company and pursuit of, and belief in, its strategies, the ramping up and launching of new business, investments in its business and technologies, the financing of future capital expenditures, and ability to fund anticipated working capital needs, the Company's views on its liquidity and ability to deal with present economic conditions, the potential for fluctuation of operating results, the likelihood of tooling supplier default under tooling guarantee programs, and the payment of dividends as well as other forward looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2018 and other public filings which can be found at www.sedar.com:

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- the risks associated with joint ventures;
- costs associated with rationalization of production facilities;
- launch and operational costs;
- labour disputes;
- changes in governmental regulations or laws including any changes to trade;
- litigation and regulatory compliance and investigations;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;

- risks of conducting business in foreign countries, including China, Brazil and other markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits;
- impairment charges;
- cybersecurity threats;
- the potential volatility of the Company's share price; and
- dividends.

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



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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	June 30, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents		\$ 90,140	\$ 70,162
Trade and other receivables	2	633,895	597,796
Inventories	3	476,046	492,759
Prepaid expenses and deposits		25,343	23,275
Income taxes recoverable		29,021	21,301
TOTAL CURRENT ASSETS		1,254,445	1,205,293
Property, plant and equipment	4	1,476,686	1,481,452
Right-of-use assets	5	204,996	-
Deferred income tax assets		139,032	145,354
Intangible assets	6	63,747	70,931
Investments	7	23,595	10,781
TOTAL NON-CURRENT ASSETS		1,908,056	1,708,518
TOTAL ASSETS		\$ 3,162,501	\$ 2,913,811
LIABILITIES			
Trade and other payables	9	\$ 818,697	\$ 862,699
Provisions	10	10,142	5,393
Income taxes payable		10,475	7,816
Current portion of long-term debt	11	14,529	16,804
Current portion of lease liabilities	12	28,053	-
TOTAL CURRENT LIABILITIES		881,896	892,712
Long-term debt	11	771,314	723,913
Lease liabilities	12	189,601	-
Pension and other post-retirement benefits		65,638	61,267
Deferred income tax liabilities		78,260	84,370
TOTAL NON-CURRENT LIABILITIES		1,104,813	869,550
TOTAL LIABILITIES		1,986,709	1,762,262
EQUITY			
Capital stock	13	681,451	680,157
Contributed surplus		42,272	42,016
Accumulated other comprehensive income		107,719	158,395
Retained earnings		344,350	270,981
TOTAL EQUITY		1,175,792	1,151,549
TOTAL LIABILITIES AND EQUITY		\$ 3,162,501	\$ 2,913,811

Subsequent event (note 7)

Contingencies (note 19)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Terry Lyons" Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

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

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
SALES		\$ 948,533	\$ 921,710	\$ 1,971,694	\$ 1,885,610
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(747,810)	(733,790)	(1,570,041)	(1,517,649)
Depreciation of property, plant and equipment and right-of-use assets (production)		(45,945)	(37,885)	(89,374)	(73,497)
Total cost of sales		(793,755)	(771,675)	(1,659,415)	(1,591,146)
GROSS MARGIN		154,778	150,035	312,279	294,464
Research and development costs		(8,784)	(6,463)	(18,073)	(13,147)
Selling, general and administrative		(57,785)	(58,520)	(118,643)	(114,862)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,892)	(2,615)	(7,357)	(5,061)
Amortization of customer contracts and relationships		(496)	(538)	(1,033)	(1,068)
Gain (loss) on disposal of property, plant and equipment		148	(224)	259	(210)
Impairment of assets	8	(18,502)	-	(18,502)	-
Restructuring costs	10	(8,165)	-	(8,165)	-
OPERATING INCOME		57,302	81,675	140,765	160,116
Share of loss of an associate	7	(512)	-	(512)	-
Finance expense (including interest on lease liabilities)	16	(9,944)	(6,907)	(19,740)	(13,408)
Other finance income (expense)	16	(1,082)	(976)	(1,096)	996
INCOME BEFORE INCOME TAXES		45,764	73,792	119,417	147,704
Income tax expense	14	(17,642)	(18,065)	(36,027)	(36,018)
NET INCOME FOR THE PERIOD		\$ 28,122	\$ 55,727	\$ 83,390	\$ 111,686
Basic earnings per share	15	\$ 0.34	\$ 0.64	\$ 1.00	\$ 1.29
Diluted earnings per share	15	\$ 0.34	\$ 0.64	\$ 1.00	\$ 1.28

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, except per share amounts) (unaudited)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
NET INCOME FOR THE PERIOD	\$ 28,122	\$ 55,727	\$ 83,390	\$ 111,686
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	(21,885)	392	(49,923)	39,825
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain (loss) in fair value of financial instruments	1,482	(1,975)	3,520	(1,975)
Reclassification of loss to net income	422	29	793	29
Items that will not be reclassified to net income				
Change in fair value of investments	-	466	(776)	(539)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 7)	-	-	(4,314)	-
Share of other comprehensive income of an associate	24	-	24	-
Remeasurement of defined benefit plans	(5,509)	170	(4,424)	2,245
Other comprehensive income (loss), net of tax	(25,466)	(918)	(55,100)	39,585
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 2,656	\$ 54,809	\$ 28,290	\$ 151,271

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
BALANCE AT DECEMBER 31, 2017	\$ 713,425	\$ 41,981	\$ 94,268	\$ 108,825	\$ 958,499
Net income for the period	-	-	-	111,686	111,686
Compensation expense related to stock options	-	228	-	-	228
Dividends (\$0.075 per share)	-	-	-	(6,577)	(6,577)
Exercise of employee stock options	1,476	(391)	-	-	1,085
<u>Other comprehensive income (loss) net of tax</u>					
Remeasurement of defined benefit plans	-	-	-	2,245	2,245
Foreign currency translation differences	-	-	39,825	-	39,825
Change in fair value of investments	-	-	(539)	-	(539)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(1,975)	-	(1,975)
Reclassification of loss to net income	-	-	29	-	29
BALANCE AT JUNE 30, 2018	714,901	41,818	131,608	216,179	1,104,506
Net income for the period	-	-	-	74,197	74,197
Compensation expense related to stock options	-	423	-	-	423
Dividends (\$0.09 per share)	-	-	-	(7,636)	(7,636)
Exercise of employee stock options	1,047	(225)	-	-	822
Repurchase of common shares	(17,699)	-	-	(7,814)	(25,513)
Estimated repurchase of common shares subsequent to year-end under an automatic share repurchase program with a broker	(18,092)	-	-	(5,779)	(23,871)
<u>Other comprehensive income (loss) net of tax</u>					
Remeasurement of defined benefit plans	-	-	-	1,834	1,834
Foreign currency translation differences	-	-	32,785	-	32,785
Change in fair value of investments	-	-	(2,328)	-	(2,328)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(4,061)	-	(4,061)
Reclassification of loss to net income	-	-	391	-	391
BALANCE AT DECEMBER 31, 2018	680,157	42,016	158,395	270,981	1,151,549
Net income for the period	-	-	-	83,390	83,390
Compensation expense related to stock options	-	628	-	-	628
Dividends (\$0.09 per share)	-	-	-	(7,447)	(7,447)
Exercise of employee stock options	1,294	(372)	-	-	922
Repurchase of common shares	-	-	-	(2,464)	(2,464)
<u>Other comprehensive income (loss) net of tax</u>					
Remeasurement of defined benefit plans	-	-	-	(4,424)	(4,424)
Foreign currency translation differences	-	-	(49,923)	-	(49,923)
Change in fair value of investments	-	-	(776)	-	(776)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 7)	-	-	(4,314)	4,314	-
Share of other comprehensive income of an associate	-	-	24	-	24
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	3,520	-	3,520
Reclassification of loss to net income	-	-	793	-	793
BALANCE AT JUNE 30, 2019	\$ 681,451	\$ 42,272	\$ 107,719	\$ 344,350	\$ 1,175,792

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net Income for the period	\$ 28,122	\$ 55,727	\$ 83,390	\$ 111,686
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets	49,837	40,500	96,731	78,558
Amortization of customer contracts and relationships	496	538	1,033	1,068
Amortization of development costs	3,555	2,795	6,683	5,742
Impairment of assets (note 8)	18,502	-	18,502	-
Unrealized loss (gain) on foreign exchange forward contracts	(842)	839	(259)	(465)
Unrealized loss (gain) on warrants (note 7)	229	(229)	810	538
Finance expense (including interest on lease liabilities)	9,944	6,907	19,740	13,408
Income tax expense	17,642	18,065	36,027	36,018
Loss (gain) on disposal of property, plant and equipment	(148)	224	(259)	210
Deferred and restricted share units expense (benefit)	(204)	1,078	1,928	1,380
Stock options expense	314	54	628	228
Share of loss of an associate	512	-	512	-
Pension and other post-retirement benefits expense	1,186	1,195	2,209	2,372
Contributions made to pension and other post-retirement benefits	(1,375)	(1,981)	(2,633)	(2,624)
	127,770	125,712	265,042	248,119
Changes in non-cash working capital items:				
Trade and other receivables	58,046	61,120	(54,941)	(11,566)
Inventories	(17,354)	(22,823)	(1,287)	(59,238)
Prepaid expenses and deposits	87	(613)	(2,865)	(3,692)
Trade, other payables and provisions	(16,602)	(46,595)	45,173	53,581
	151,947	116,801	251,122	227,204
Interest paid (including interest on lease liabilities; excluding capitalized interest)	(11,585)	(7,311)	(22,169)	(14,244)
Income taxes paid	(11,822)	(30,900)	(40,287)	(62,578)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 128,540	\$ 78,590	\$ 188,666	\$ 150,382
FINANCING ACTIVITIES:				
Increase in long-term debt	3,307	36,886	84,727	56,575
Repayment of long-term debt	(19,301)	(41,724)	(23,382)	(47,003)
Principal payments of lease liabilities	(6,836)	-	(14,111)	-
Dividends paid	(3,724)	(2,603)	(7,541)	(5,205)
Exercise of employee stock options	-	1,085	922	1,085
Repurchase of common shares	-	-	(26,335)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ (26,554)	\$ (6,356)	\$ 14,280	\$ 5,452
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment*	(83,028)	(79,849)	(160,446)	(151,302)
Capitalized development costs	(3,116)	(3,492)	(5,432)	(6,484)
Investment in NanoXplore Inc. (note 7)	-	-	(14,999)	(680)
Proceeds on disposal of property, plant and equipment	232	203	715	973
Upfront recovery of development costs incurred	-	2,276	-	2,276
NET CASH USED IN INVESTING ACTIVITIES	\$ (85,912)	\$ (80,862)	\$ (180,162)	\$ (155,217)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,381)	2,491	(2,806)	3,448
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,693	(6,137)	19,978	4,065
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,447	81,395	70,162	71,193
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 90,140	\$ 75,258	\$ 90,140	\$ 75,258

*As at June 30, 2019, \$18,776 (December 31, 2018 - \$45,341) 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)

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 diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems.

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, 2018, 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, 2018.

(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

(i) IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or short term in nature. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on its interim condensed consolidated balance sheet, as well as a decrease in operating rent expense, and increases in finance and depreciation expenses, as recognized in the interim condensed consolidated statement of operations. The standard did not have a significant impact on the Company's overall consolidated operating results.

The Company adopted IFRS 16, effective January 1, 2019, under the modified retrospective approach. Comparatives for 2018 were not restated. At transition, the Company elected to use the practical expedient available under the standard that allows lease assessments made under IAS 17 and IFRIC 4 to be used for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified after January 1, 2019.

Upon initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rates as at January 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.2%. For leases previously classified as operating leases under IAS 17, the Company measured right-of-use assets equal to the corresponding lease liabilities adjusted for any accrued payments related to that lease. For leases previously classified as finance leases, the Company measured right-of-use assets and lease liabilities at the carrying amounts of the finance lease assets and liabilities immediately before the date of initial application.

As such, on January 1, 2019, the Company recorded lease liabilities of \$228,623 and right-of-use assets of \$223,786, net of accrued liabilities related to the leases of \$4,837, recognized in the interim condensed consolidated balance sheet immediately before the date of initial application, with no net impact on retained earnings.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

The Company elected to use the following practical expedients upon initial application in accordance with the provisions of IFRS 16:

- (a) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Reliance on the Company's assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application;
- (c) Accounting for all leases with a lease term that ends within 12 months of initial application in the same way as short-term leases;
- (d) Exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application; and
- (e) Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options.

On transition, the Company elected to use the recognition exemptions on short-term leases or low-value leases, however, in the future, may choose to elect the recognition exemptions on a class-by-class and lease-by-lease basis.

For leases of land and buildings, the Company elected to separate fixed non-lease components from lease components and account for each separately. For leases of manufacturing equipment and other assets, the Company elected to not separate fixed non-lease components from lease components and instead account for both as a single lease component.

The following table reconciles the Company's operating lease commitments as at December 31, 2018, as previously disclosed in the Company's annual audited consolidated financial statements for the year-ended December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

Operating lease commitments at December 31, 2018	\$	240,052
Operating lease commitments discounted using the related incremental borrowing rates as of January 1, 2019	\$	198,282
Finance lease liabilities recognized as of December 31, 2018	\$	(463)
Recognition exemption for:		
Short-term leases		(4,150)
Low value leases		(70)
Extension and termination options reasonably certain to be exercised		46,570
Leases starting after January 1, 2019		(11,546)
Lease liabilities recognized as of January 1, 2019	\$	228,623

New Lease Accounting Policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the contract: involves the use of an identified asset; provides the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and provides the right to direct the use of the asset.

This policy is applied to contracts entered into, or modified on or after January 1, 2019.

A right-of-use asset and lease liability are recorded on the date that the underlying asset is available for use, representing the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that are tied to an index or rate defined in the contract;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably likely to exercise; and
- lease payments under an optional extension if the Company is reasonably certain to exercise the extension option, and early termination penalties required under a termination of a lease unless the Company is reasonably certain not to terminate early.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, consisting of:

- the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term consists of the non-cancellable period of the lease; periods covered by options to extend the lease, when the Company is reasonably certain to exercise the option to extend; and periods covered by options to terminate the lease, when the Company is reasonably certain not to exercise the option. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability as described above.

Short term and low-value leases

The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases (i.e., those leases that have a lease term of twelve months or less) and leases with assets of low value (i.e., those assets with a fair market value of less than \$5,000 US). The expenses associated with such leases are recognized in the interim condensed consolidated statement of operations on a straight-line basis over the lease term.

Variable lease payments

Certain leases contain provisions that result in changes to lease payments over the term in relation to market indices quoted in the contract. The Company reassesses the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payment.

Certain leases require the Company to make payments that relate to property taxes, insurance, or other non-rental costs. These costs are typically variable and are not included in the calculation of the right-of-use asset or lease liability, but are recorded as an expense in cost of sales in the interim condensed consolidated statement of operations in the period in which they are incurred.

(ii) Investments in Associates and Joint Ventures

Associates are entities over which the Company has significant influence, but not control, on financial and operating policy decisions. Significant influence is assumed when the Company holds 20% to 50% of the voting power of the investee, unless qualitative factors overcome this presumption. Similarly, significant influence is presumed not to exist when the Company holds less than 20% of the voting power of the investee, unless qualitative factors overcome this presumption.

Entities over which the Company has significant influence are accounted for under the equity method. The investment is initially recognized at cost. The carrying amount is subsequently increased or decreased to recognize the Company's share of profits or losses of the associate after the date of acquisition or when significant influence begins. The Company's share of profits or losses is recognized in the interim condensed consolidated statement of operations, and its share of other comprehensive income or loss of the associate is included in other comprehensive income or loss.

Unrealized gains on transactions between the Company and the associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in the level of the Company's equity interest in an associate are recognized in the interim condensed consolidated statements of operations.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

The amounts included in the financial statements of the associate are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

At the end of each reporting period, the Company assesses whether there is any objective evidence that its investment is impaired. If impaired, the carrying value of the Company's share of the underlying assets of the associate is written down to its estimated recoverable amount and charged to the statement of operations.

The Company has an equity interest in one associate, NanoXplore Inc., as further described in note 7.

2. TRADE AND OTHER RECEIVABLES

	June 30, 2019	December 31, 2018
Trade receivables	\$ 621,204	\$ 585,790
Other receivables	12,432	11,940
Foreign exchange forward contracts not accounted for as hedges (note 18(d))	259	66
	\$ 633,895	\$ 597,796

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 18.

3. INVENTORIES

	June 30, 2019	December 31, 2018
Raw materials	\$ 159,799	\$ 173,123
Work in progress	38,942	39,591
Finished goods	30,828	37,761
Tooling work in progress and other inventory	246,477	242,284
	\$ 476,046	\$ 492,759

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 130,099	\$ (23,350)	\$ 106,749	\$ 130,106	\$ (22,546)	\$ 107,560
Leasehold improvements	73,802	(43,712)	30,090	70,079	(41,238)	28,841
Manufacturing equipment	2,092,858	(1,119,063)	973,795	2,009,183	(1,086,324)	922,859
Tooling and fixtures	38,236	(32,574)	5,662	39,551	(33,091)	6,460
Other assets	65,616	(34,571)	31,045	63,807	(31,294)	32,513
Construction in progress	329,345	-	329,345	383,219	-	383,219
	\$ 2,729,956	\$ (1,253,270)	\$ 1,476,686	\$ 2,695,945	\$ (1,214,493)	\$ 1,481,452

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 in progress	Total
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	290,299	290,513
Disposals	-	(5)	(1,326)	-	(25)	(683)	(2,039)
Depreciation	(4,026)	(4,220)	(146,798)	(1,773)	(6,481)	-	(163,298)
Impairment	-	-	(5,436)	-	-	-	(5,436)
Transfers from construction in progress	3,868	5,786	176,593	306	9,444	(195,997)	-
Foreign currency translation adjustment	6,713	937	50,476	452	1,105	19,405	79,088
Net as of December 31, 2018	107,560	28,841	922,859	6,460	32,513	383,219	1,481,452
Additions	-	-	-	-	-	133,881	133,881
Disposals	-	-	(449)	-	-	(7)	(456)
Depreciation	(1,966)	(2,267)	(72,659)	(587)	(3,568)	-	(81,047)
Impairment (note 8)	-	(1,116)	(4,038)	-	(732)	(1,140)	(7,026)
Reclassification to right-of-use assets	-	-	(445)	-	-	-	(445)
Transfers from construction in progress	4,994	5,396	160,658	-	3,720	(174,768)	-
Foreign currency translation adjustment	(3,839)	(764)	(32,131)	(211)	(888)	(11,840)	(49,673)
Net as of June 30, 2019	\$ 106,749	\$ 30,090	\$ 973,795	\$ 5,662	\$ 31,045	\$ 329,345	\$ 1,476,686

5. RIGHT-OF-USE ASSETS

	June 30, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	\$ 204,032	\$ (18,745)	\$ 185,287
Leased manufacturing equipment	20,655	(2,776)	17,879
Leased other assets	2,397	(567)	1,830
	\$ 227,084	\$ (22,088)	\$ 204,996

Movement in right-of-use assets is summarized as follows:

	Leased buildings	Leased manufacturing equipment	Leased other assets	Total
Net as of December 31, 2018	\$ -	\$ -	\$ -	\$ -
Initial recognition of right-of-use assets upon transition to IFRS 16 (note 1(d))	207,651	14,226	1,909	223,786
Reclassification from property, plant and equipment upon adoption of IFRS 16	-	445	-	445
Additions	-	6,109	416	6,525
Depreciation	(12,693)	(2,541)	(450)	(15,684)
Impairment (note 8)	(6,462)	-	(10)	(6,472)
Foreign currency translation adjustment	(3,209)	(360)	(35)	(3,604)
Net as of June 30, 2019	\$ 185,287	\$ 17,879	\$ 1,830	\$ 204,996

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

6. INTANGIBLE ASSETS

	June 30, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 61,784	\$ (58,950)	\$ 2,834	\$ 62,497	\$ (58,498)	\$ 3,999
Development costs	157,961	(97,048)	60,913	160,008	(93,076)	66,932
	\$ 219,745	\$ (155,998)	\$ 63,747	\$ 222,505	\$ (151,574)	\$ 70,931

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2017	\$ 5,920	\$ 62,494	\$ 68,414
Additions	-	14,171	14,171
Amortization	(2,140)	(11,342)	(13,482)
Upfront recovery of development costs incurred	-	(2,566)	(2,566)
Foreign currency translation adjustment	219	4,175	4,394
Net as of December 31, 2018	3,999	66,932	70,931
Additions	-	5,432	5,432
Amortization	(1,033)	(6,683)	(7,716)
Impairment (note 8)	-	(2,487)	(2,487)
Foreign currency translation adjustment	(132)	(2,281)	(2,413)
Net as of June 30, 2019	\$ 2,834	\$ 60,913	\$ 63,747

7. INVESTMENTS

	June 30, 2019	December 31, 2018
Investment in common shares of NanoXplore Inc.	\$ 22,197	\$ 8,572
Warrants in NanoXplore Inc.	1,398	2,209
	\$ 23,595	\$ 10,781

NanoXplore Inc. ("NanoXplore") is a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. It is 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.

As at December 31, 2018, the Company held 5,911,800 common shares and 2,955,900 warrants in NanoXplore. On January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of \$14,999 through a private placement offering, increasing its holdings in NanoXplore to 17,449,800 common shares, representing a 16% equity interest in the company. Prior to January 11, 2019, the Company's investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income. Effective January 11, 2019, the Company's investment in NanoXplore is now being accounted for using the equity method.

	Investment in common shares of NanoXplore
Opening cost base of investment after January 11, 2019 private placement	\$ 22,685
Share of loss for the period	(512)
Share of other comprehensive income for the period	24
Net balance as of June 30, 2019	\$ 22,197

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

The Company applies equity accounting to its investment based on NanoXplore's most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date which represents a reasonable estimate of the change in the Company's interest.

Upon transition to the equity accounting method of the Company's investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of \$4,314 from other comprehensive income to retained earnings.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton option valuation model, with the change in fair value recorded through profit or loss. As at June 30, 2019, the warrants had a fair value of \$1,398. Based on the fair value of the warrants as at June 30, 2019, an unrealized loss of \$229 was recognized for the three months ended June 30, 2019 (2018 - unrealized gain of \$229) and an unrealized loss of \$810 was recognized for the six months ended June 30, 2019 (2018 - unrealized loss of \$538), recorded in other finance income (expense) in the interim condensed consolidated statement of operations.

Subsequent to the quarter-end, on July 31, 2019, the Company exercised 2,750,000 of the outstanding warrants. The warrants had an exercise price of \$0.70 per share for total consideration paid of \$1,925.

8. IMPAIRMENT OF ASSETS

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling \$18,502 related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives during the quarter. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration where specific assets can be transferred to other facilities.

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Property, plant and equipment	\$ (7,026)	\$ -	\$ (7,026)	-
Right-of-use assets	(6,472)	-	(6,472)	-
Intangible Assets - Development costs	(2,487)	-	(2,487)	-
Inventories	(2,517)	-	(2,517)	-
Total Impairment	\$ (18,502)	\$ -	\$ (18,502)	-

9. TRADE AND OTHER PAYABLES

	June 30, 2019	December 31, 2018
Trade accounts payable and accrued liabilities	\$ 817,487	\$ 834,732
Estimated share repurchase liability	-	23,871
Foreign exchange forward contracts accounted for as hedges (note 18(d))	1,210	4,096
	\$ 818,697	\$ 862,699

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

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10. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2017	\$ 1,116	\$ 3,932	\$ 5,048
Net additions	2,073	2,046	4,119
Amounts used during the period	(1,116)	(2,453)	(3,569)
Foreign currency translation adjustment	-	(205)	(205)
Net as of December 31, 2018	2,073	3,320	5,393
Net additions	8,165	631	8,796
Amounts used during the period	(2,710)	(1,268)	(3,978)
Foreign currency translation adjustment	10	(79)	(69)
Net as of June 30, 2019	\$ 7,538	\$ 2,604	\$ 10,142

Additions to the restructuring accrual during the second quarter of 2019 totaled \$8,165 and represent employee-related severance resulting from the right-sizing of operating facilities in Brazil (\$6,208), Canada (\$1,679) and China (\$278).

Based on estimated cash outflows, all provisions as at June 30, 2019 and December 31, 2018 are presented on the interim condensed consolidated balance sheets as current liabilities.

11. 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 18.

	June 30, 2019	December 31, 2018
Banking facility	\$ 712,565	\$ 657,803
Equipment loans	73,278	82,914
	785,843	740,717
Current portion	(14,529)	(16,804)
	\$ 771,314	\$ 723,913

Terms and conditions of outstanding loans, as at June 30, 2019, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	June 30, 2019 Carrying amount	December 31, 2018 Carrying amount
Banking facility	USD	LIBOR + 1.70%	2022	\$ 382,403	\$ 388,102
	CAD	BA + 1.70%	2022	330,162	269,701
Equipment loans	EUR	1.05%	2024	27,871	32,076
	CAD	3.80%	2022	27,500	31,334
	EUR	1.40%	2026	16,227	-
	EUR	1.36%	2021	1,177	1,544
	EUR	0.26%	2025	321	362
	EUR	3.35%	2019	131	966
	BRL	5.00%	2020	51	76
	EUR	2.54%	2025	-	16,093
	USD	3.80%	2022	-	463
				\$ 785,843	\$ 740,717

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);

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- 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 June 30, 2019, the Company has drawn US\$292,000 (December 31, 2018 - US\$286,000) on the U.S. revolving credit line and \$333,000 (December 31, 2018 - \$273,000) on the Canadian revolving credit line. At June 30, 2019, the weighted average effective interest rate of the banking facility credit lines was 4.0% (December 31, 2018 - 3.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2019.

Deferred financing fees of \$2,838 (December 31, 2018 - \$3,299) have been netted against the carrying amount of the long-term debt.

On January 30, 2019, the Company finalized an equipment loan in the amount of €10,900 (\$16,602) repayable in monthly installments over six years starting in 2020 at a fixed annual interest rate of 1.40%.

Future annual minimum principal repayments as at June 30, 2019 are as follows:

	Scheduled principal repayments	Scheduled amortization of deferred financing fees	Carrying amount of outstanding loans
Within one year	\$ 15,450	\$ 921	\$ 14,529
One to two years	17,161	921	16,240
Two to three years	16,993	921	16,072
Three to four years	726,892	75	726,817
Thereafter	12,185	-	12,185
	\$ 788,681	\$ 2,838	\$ 785,843

Movement in long-term debt is summarized as follows:

	Total
Net as of December 31, 2017	\$ 654,017
Drawdowns	79,360
Equipment loan proceeds	36,886
Repayments	(57,710)
Deferred financing fee additions	(1,750)
Amortization of deferred financing fees	1,278
Foreign currency translation adjustment	28,636
Net as of December 31, 2018	\$ 740,717
Drawdowns	68,125
Loan proceeds	16,602
Repayments	(23,382)
Amortization of deferred financing fees	461
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16	(457)
Foreign currency translation adjustment	(16,223)
Net as of June 30, 2019	\$ 785,843

12. LEASE LIABILITIES

The Company enters into lease agreements for land and buildings, manufacturing equipment and other assets as a part of regular operations as a means of efficiently utilizing capital and managing the Company's cash flows.

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Below is a summary of the activity related to the Company's lease liabilities for the six months ended June 30, 2019:

	Six months ended June 30, 2019
Net as of December 31, 2018	\$ -
Initial recognition of lease liabilities upon transition to IFRS 16 (note 1(d))	228,623
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16	457
Net additions	6,584
Principal payments of lease liabilities	(14,111)
Foreign currency translation adjustment and other	(3,899)
Net as of June 30, 2019	\$ 217,654

The maturity of contractual undiscounted lease liabilities as at June 30, 2019 is as follows:

Within one year	\$ 36,533
One to two years	35,166
Two to three years	32,693
Three to four years	30,356
Thereafter	125,468
Total undiscounted lease liabilities at June 30, 2019	\$ 260,216
Interest on lease liabilities	(42,562)
Total present value of minimum lease payments	\$ 217,654
Current portion	(28,053)
	\$ 189,601

13. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance as of, December 31, 2017	86,745,834	\$ 713,425
Exercise of stock options	123,750	1,476
Balance as of, June 30, 2018	86,869,584	\$ 714,901
Exercise of stock options	110,000	1,047
Repurchase of common shares under normal course issuer bid	(2,150,400)	(17,699)
Repurchase of common shares subsequent to year-end under an automatic share purchase program with a broker	(2,198,079)	(18,092)
Balance as of, December 31, 2018	82,631,105	\$ 680,157
Exercise of stock options	115,500	1,294
Balance as of, June 30, 2019	82,746,605	\$ 681,451

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

During 2018, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of \$25,513, resulting in a decrease to stated capital of \$17,699 and a decrease to retained earnings of \$7,814. The shares were purchased and cancelled directly under the NCIB.

At the end of 2018, the Company entered into an Automatic Share Purchase Program ("ASPP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares under the ASPP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASPP for an aggregate purchase price of \$26,335, resulting in a decrease to stated capital of \$18,092 and a decrease to retained earnings of \$8,243. The shares were purchased and cancelled directly under the NCIB.

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Stock options

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

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,430,700	\$ 11.46	1,844,450	\$ 10.12
Granted during the period	20,000	13.19	100,000	16.06
Exercised during the period	(115,500)	7.98	(123,750)	8.77
Balance, end of period	2,335,200	\$ 11.65	1,820,700	\$ 10.54
Options exercisable, end of period	1,545,200	\$ 10.77	1,745,700	\$ 10.30

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2019:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$7.00 - 8.70	443,200	2009 - 2012	2019 - 2022
\$10.40 - 16.06	1,892,000	2012 - 2019	2022 - 2029
Total share purchase options	2,335,200		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes-Merton option valuation model. The Black-Scholes-Merton 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 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 six months ended June 30, 2019 and 2018 are shown in the table below:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Expected volatility	36.67%	37.21%
Risk free interest rate	2.19%	1.82%
Expected life (years)	4.9	4.0
Dividend yield	1.36%	0.75%
Weighted average fair value of options granted	\$ 3.82	\$ 4.76

For the three and six months ended June 30, 2019, the Company expensed \$315 (2018 - \$54) and \$629 (2018 - \$228), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

Deferred Share Unit Plan ("DSU")

The following is a summary of the issued and outstanding DSUs as at June 30, 2019 and 2018:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Outstanding, beginning of period	174,574	123,313
Granted and reinvested dividends	28,908	19,619
Redeemed	-	-
Outstanding, end of period	203,482	142,932

The DSUs granted during the six months ended June 30, 2019 and 2018 were granted to non-executive directors, are not subject to vesting conditions and had a weighted average fair value per unit of \$13.26 and \$15.77, respectively, on the date of grant. At June 30, 2019, the fair value of all outstanding DSUs amounted to \$2,078 (June 30, 2018 - \$2,173 and December 31, 2018 - \$1,806). For the three and six months ended June 30, 2019, DSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the

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period, amounted to a benefit of \$124 (2018 - expense of \$306) and an expense of \$272 (2018 - expense of \$235), respectively, recorded in selling, general and administrative expense.

Performance Restricted Share Unit Plan (“PSU” and “RSU”)

The following is a summary of the issued and outstanding RSUs and PSUs for the six months ended June 30, 2019 and 2018:

	RSUs	PSUs	Total
Outstanding, December 31, 2017	77,304	77,304	154,608
Granted and reinvested dividends	149,696	149,696	299,392
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, June 30, 2018	227,000	227,000	454,000
Granted and reinvested dividends	62,210	62,210	124,420
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, December 31, 2018	289,210	289,210	578,420
Granted and reinvested dividends	83,252	83,252	166,504
Redeemed	-	-	-
Forfeited	-	-	-
Outstanding, June 30, 2019	372,462	372,462	744,924

The RSUs and PSUs granted during the six months ended June 30, 2019 and 2018 had a weighted average fair value per unit of \$14.00 and \$16.31, respectively, on the date of grant. For the three and six months ended June 30, 2019, RSU and PSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of \$80 (2018 - expense of \$772) and an expense of \$1,656 (2018 - expense of \$1,145), respectively, recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2019 was \$2,592 (June 30, 2018 - \$3,316 and December 31, 2018 - \$2,868) and will be recognized in earnings over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the six months ended June 30, 2019 and 2018 are shown in the table below:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Expected life (years)	2.67	2.46
Risk free interest rate	1.59%	1.91%

14. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Current income tax expense	\$ (17,703)	\$ (22,661)	\$ (36,216)	\$ (60,270)
Deferred income tax recovery	61	4,596	189	24,252
Total income tax expense	\$ (17,642)	\$ (18,065)	\$ (36,027)	\$ (36,018)

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15. EARNINGS PER SHARE

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

	Three months ended June 30, 2019		Three months ended June 30, 2018	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	82,746,605	\$ 0.34	86,813,890	\$ 0.64
Effect of dilutive securities:				
Stock options	174,955	-	612,332	-
Diluted	82,921,560	\$ 0.34	87,426,222	\$ 0.64

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	83,051,964	\$ 1.00	86,779,862	\$ 1.29
Effect of dilutive securities:				
Stock options	193,735	-	584,346	(0.01)
Diluted	83,245,699	\$ 1.00	87,364,208	\$ 1.28

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

For the three months ended June 30, 2019, 1,607,000 options (2018 - 100,000) and for the six months ended June 30, 2019, 1,607,000 options (2018 - 100,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Debt interest, gross	\$ (9,450)	\$ (7,720)	\$ (18,840)	\$ (14,972)
Interest on lease liabilities	(2,316)	-	(3,896)	-
Capitalized interest - at an average rate of 4.0%, 3.9% (2018 - 3.3%, 3.1%)	1,822	813	2,996	1,564
Finance expense (including interest on lease liabilities)	\$ (9,944)	\$ (6,907)	\$ (19,740)	\$ (13,408)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net unrealized foreign exchange gain (loss)	\$ (936)	\$ (1,292)	\$ (437)	\$ 1,381
Unrealized gain (loss) on warrants (note 7)	(229)	229	(810)	(538)
Other income, net	83	87	151	153
Other finance income (expense)	\$ (1,082)	\$ (976)	\$ (1,096)	\$ 996

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17. OPERATING SEGMENTS

The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

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

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2018 and recently adopted and applicable accounting standards and policies as disclosed in note 1(d) of these financial statements. 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:

Three months ended June 30, 2019						
	Production Sales		Tooling Sales		Total Sales	Operating Income
North America						
Canada	\$	159,927	\$	3,729	\$	163,656
USA		285,582		12,533		298,115
Mexico		317,268		20,548		337,816
Eliminations		(43,767)		(1,779)		(45,546)
	\$	719,010	\$	35,031	\$	754,041
						\$ 69,998
Europe						
Germany		103,936		11,170		115,106
Spain		34,619		3,015		37,634
Slovakia		13,469		313		13,782
Eliminations		-		(911)		(911)
		152,024		13,587		165,611
Rest of the World		28,496		1,971		30,467
Eliminations		(1,439)		(147)		(1,586)
	\$	898,091	\$	50,442	\$	948,533
						\$ 57,302
Three months ended June 30, 2018						
	Production Sales		Tooling Sales		Total Sales	Operating Income
North America						
Canada	\$	163,866	\$	11,262	\$	175,128
USA		295,624		14,428		310,052
Mexico		238,217		19,635		257,852
Eliminations		(38,759)		(2,426)		(41,185)
	\$	658,948	\$	42,899	\$	701,847
						\$ 67,159
Europe						
Germany		118,121		14,554		132,675
Spain		35,793		4,747		40,540
Slovakia		15,062		1,532		16,594
Eliminations		-		(1,106)		(1,106)
		168,976		19,727		188,703
Rest of the World		31,499		2,329		33,828
Eliminations		(2,475)		(193)		(2,668)
	\$	856,948	\$	64,762	\$	921,710
						\$ 81,675

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Six months ended June 30, 2019				
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	\$ 320,264	\$ 7,298	\$ 327,562	
USA	599,539	49,018	648,557	
Mexico	623,417	82,437	705,854	
Eliminations	(89,291)	(27,504)	(116,795)	
	\$ 1,453,929	\$ 111,249	\$ 1,565,178	\$ 141,123
Europe				
Germany	222,204	27,401	249,605	
Spain	76,054	5,106	81,160	
Slovakia	26,604	1,392	27,996	
Eliminations	-	(2,755)	(2,755)	
	324,862	31,144	356,006	25,999
Rest of the World	49,499	4,300	53,799	(26,357)
Eliminations	(2,946)	(343)	(3,289)	
	\$ 1,825,344	\$ 146,350	\$ 1,971,694	\$ 140,765
Six months ended June 30, 2018				
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	\$ 325,356	\$ 25,411	\$ 350,767	
USA	617,342	48,707	666,049	
Mexico	484,835	31,840	516,675	
Eliminations	(83,004)	(7,485)	(90,489)	
	\$ 1,344,529	\$ 98,473	\$ 1,443,002	\$ 128,627
Europe				
Germany	238,998	18,663	257,661	
Spain	78,374	7,694	86,068	
Slovakia	29,214	2,589	31,803	
Eliminations	-	(1,106)	(1,106)	
	346,586	27,840	374,426	30,582
Rest of the World	64,178	10,031	74,209	907
Eliminations	(5,654)	(373)	(6,027)	
	\$ 1,749,639	\$ 135,971	\$ 1,885,610	\$ 160,116

18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investments, 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.

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

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 90,140	\$ 90,140	\$ -	\$ -
Warrants in NanoXplore (note 7)	\$ 1,398	\$ -	\$ 1,398	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	\$ 259	\$ -	\$ 259	\$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	\$ (1,210)	\$ -	\$ (1,210)	\$ -

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 70,162	\$ 70,162	\$ -	\$ -
Investments (note 7)	\$ 10,781	\$ 8,572	\$ 2,209	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 2)	\$ 66	\$ -	\$ 66	\$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	\$ (4,096)	\$ -	\$ (4,096)	\$ -

Fair values versus carrying amounts

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

June 30, 2019	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	\$ -	\$ -	\$ 633,636	\$ -	\$ 633,636	\$ 633,636
Warrants in NanoXplore (note 7)	1,398	-	-	-	1,398	1,398
Foreign exchange forward contracts not accounted for as hedges	259	-	-	-	259	259
	1,657	-	633,636	-	635,293	635,293
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(817,487)	(817,487)	(817,487)
Long-term debt	-	-	-	(785,843)	(785,843)	(785,843)
Foreign exchange forward contracts accounted for as hedges	-	(1,210)	-	-	(1,210)	(1,210)
	-	(1,210)	-	(1,603,330)	(1,604,540)	(1,604,540)
Net financial assets (liabilities)	\$ 1,657	\$ (1,210)	\$ 633,636	\$ (1,603,330)	\$ (969,247)	\$ (969,247)

December 31, 2018	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	\$ -	\$ -	\$ 597,730	\$ -	\$ 597,730	\$ 597,730
Investments (note 7)	2,209	8,572	-	-	10,781	10,781
Foreign exchange forward contracts not accounted for as hedges	66	-	-	-	66	66
	2,275	8,572	597,730	-	608,577	608,577
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(834,732)	(834,732)	(834,732)
Estimated share repurchase liability	-	-	-	(23,871)	(23,871)	(23,871)
Long-term debt	-	-	-	(740,717)	(740,717)	(740,717)
Foreign exchange forward contracts accounted for as hedges	-	(4,096)	-	-	(4,096)	(4,096)
	-	(4,096)	-	(1,599,320)	(1,603,416)	(1,603,416)
Net financial assets (liabilities)	\$ 2,275	\$ 4,476	\$ 597,730	\$ (1,599,320)	\$ (994,839)	\$ (994,839)

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The fair values of trade and other receivables and trade and other payables approximate their carrying amounts due to the short-term maturities of these instruments. The estimated fair value of long-term debt approximates its carrying amount since it 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.

Risk Management

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

(a) Credit risk

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

Credit risk associated with cash and 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 32.2%, 29.4%, and 14.1% of its production sales for the six months ended June 30, 2019 (2018 - 30.6%, 26.3%, and 15.8%). 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 June 30, 2019 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 0.5% of total trade receivables for all periods and movements in the period were minimal.

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

	June 30, 2019	December 31, 2018
0-60 days	\$ 597,079	\$ 540,728
61-90 days	10,823	18,437
Greater than 90 days	13,302	26,625
	\$ 621,204	\$ 585,790

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2019, the Company had cash of \$90,140 (December 31, 2018 - \$70,162) and banking facilities available as discussed in note 11. 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 11.

(c) Interest rate risk

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

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

	Carrying amount	
	June 30, 2019	December 31, 2018
Variable rate instruments	\$ 712,565	\$ 657,803
Fixed rate instruments	73,278	82,914
	\$ 785,843	\$ 740,717

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,815 (2018 - \$1,487) on the Company's consolidated financial results for the three months ended June 30, 2019 and \$3,577 (2018 - \$2,907) for the six months ended June 30, 2019.

(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 revenue and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At June 30, 2019, the Company had committed to the following foreign exchange 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	\$ 41,800	1.3195	1
Buy Mexican Peso	\$ 18,843	19.1050	1

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax gain of \$259 and was recorded in trade and other receivables (December 31, 2018 - pre-tax gain of \$66 recorded in trade and other receivables).

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	\$ 46,900	1.2780	42

The aggregate value of these forward contracts as at June 30, 2019 was a pre-tax loss of \$1,210 and was recorded in trade and other payables (December 31, 2018 - pre-tax loss of \$4,096 recorded in trade and other payables).

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

June 30, 2019	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 339,155	€ 68,179	\$ 28,927	R\$ 28,163	¥ 79,893
Trade and other payables	(389,830)	(86,722)	(228,403)	(40,827)	(72,684)
Long-term debt	(292,000)	(30,716)	-	(149)	-
	\$ (342,675)	€ (49,259)	\$ (199,476)	R\$ (12,813)	¥ 7,209
December 31, 2018	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 297,895	€ 66,826	\$ 84,181	R\$ 26,348	¥ 89,887
Trade and other payables	(383,618)	(88,627)	(219,130)	(37,578)	(104,990)
Long-term debt	(286,341)	(32,787)	-	(218)	-
	\$ (372,064)	€ (54,588)	\$ (134,949)	R\$ (11,448)	¥ (15,103)

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The following summary illustrates the fluctuations in the exchange rates applied during the three and six months ended June 30, 2019 and 2018 and as at December 31, 2018:

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018	June 30, 2019	December 31, 2018
USD	1.3385	1.2857	1.3357	1.2735	1.3096	1.3570
EURO	1.5048	1.5576	1.5110	1.5433	1.4887	1.5567
PESO	0.0701	0.0679	0.0691	0.0673	0.0682	0.0686
BRL	0.3434	0.3730	0.3475	0.3803	0.3408	0.3498
CNY	0.1982	0.2029	0.1969	0.1993	0.1905	0.1985

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2019 and 2018 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
USD	\$ (3,524)	\$ (3,633)	\$ (7,779)	\$ (7,698)
EURO	(1,303)	(1,259)	(2,559)	(2,586)
BRL	644	56	853	146
CNY	1,850	138	2,014	(105)
	\$ (2,333)	\$ (4,698)	\$ (7,471)	\$ (10,243)

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

(e) Capital risk management

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

In addition to debt and equity the Company may use 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.

19. 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.

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Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundacao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately \$69,551 (BRL \$204,078) including interest and penalties to June 30, 2019 (December 31, 2018 - \$74,319 or BRL \$212,462). 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 \$28,562 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.

20. 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 interim condensed consolidated balance sheet. At June 30, 2019, the amount of the off-balance sheet program financing was \$34,864 (December 31, 2018 - \$58,871) 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 2019. 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.



MARTINREA INTERNATIONAL INC.

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