



**MARTINREA INTERNATIONAL INC.**

---

**REPORT TO SHAREHOLDERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

## MESSAGE TO SHAREHOLDERS

The year 2015 was a great year for Martinrea and our committed Martinrea team. It was a year of focus on our vision, delivering on our mission and applying our Guiding Ten Principles throughout our Company. When these things are prioritized, good things happen, and we achieved improved and record results according to a number of metrics.

But first, our vision for the future – to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. This is aspirational for us, what we intend to be, where we want to get to. We made positive strides in 2015.

Our mission is to deliver:

- Outstanding quality products and services to our customers
- Meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth
- Superior long term returns to our stakeholders
- Positive contributions to our communities as good corporate citizens.

Let's look at 2015 in view of our stated vision and mission.

We delivered quality products and services to our customers. Our quality performance improved throughout the Company, and, although there is always room for improvement, both in particular areas and overall, our operations improved. We were recognized for that with two types of customer awards in 2015. A number of our plants won quality awards from various customers for our product offerings to them. Another good sign of customer satisfaction is the award of new and replacement business; in 2015, we announced new business awards totaling approximately \$500 million in annual business when fully launched, based on anticipated volumes. These product awards were from a variety of customers – we announced significant work for our steel metalforming, aluminum, fluid management systems and module assembly product offerings. Our emphasis on continuing to build on our operational excellence and lean manufacturing processes is bearing fruit, and customers notice.

Our people are critical to the success of our Company. It is critical to develop our talent internally, and develop a high performance culture in all of our plants and throughout the Company. That again was a focus of our Company in 2015, and will continue to be going forward. Our performance provides job security, job satisfaction and opportunity for our people. We have over 14,000 people at Martinrea, and they know that with growing operations comes security and opportunity. Each year we conduct employee surveys to get feedback from our people, our most important asset, and we are pleased to say that the results of these surveys show the highest levels of job satisfaction since we started taking the surveys. We are training our people to be better.

Our health and safety metrics throughout the Company are improving, as we strive to be industry leaders from this perspective also. We are pursuing operational excellence and talent development activities consistently. We are communicating with our people better than ever before, as we focus on One Martinrea throughout the Company. We are reminded of the fact that Martinrea is still a very young company, in many ways, only 15 years old, and a company that has been created not just through organic growth, but through the acquisition of many businesses, with their own cultures. It is mission critical to develop and enhance our own culture – the Martinrea Way if you will, and we are doing that. Our tone at the top, our approach to our people, to treat them with dignity and respect, in the way we would each like to be treated ourselves, is at the core of what we do here, and that message is taking hold.

If we take care of our customers well and take care of our people well, we will have a better business, and can provide good returns to our stakeholders, both our lenders and our shareholders. We are very pleased to report improved financial results in 2015, a record year in many respects:

- We recorded record revenues of approximately \$3.87 billion
- We achieved record earnings performance, with adjusted net earnings of approximately \$119 million, or adjusted net earnings per share of \$1.38, the best performance in our history, and our seventh consecutive year of adjusted earnings improvement
- Our adjusted operating income margins improved to 4.6% for the year, up from 4.1% in 2014, as we move towards our publicly announced target of 6% operating income margin performance by the end of 2017
- We achieved record adjusted EBITDA performance in 2015 of \$318 million
- Our net debt:EBITDA ratio improved from over 2.37:1 at the end of 2014 to 2.17:1 at the end of 2015, a level that we are very comfortable with, and on our way to achieving a targeted ratio of 1.5:1 by the end of 2017
- We generated positive cash flow over the year and, absent foreign currency fluctuations, reduced our net debt levels by \$22 million, while not a large amount, certainly confirming our prediction that we would see positive net cash flow in 2015
- In a year when a number of companies in our space saw negative stock market returns, our share price ended the year 2015 modestly higher than at the beginning of the year.

In sum, our Company delivered on our promises on the financial side in 2015, and, to use a hockey analogy, we continued to “put pucks in the net” quarter by quarter, executing on our plan. Our prediction is that all these metrics will continue to improve in 2016, and then again in 2017, even if the North American, or world, market for automotive production is flat or shows little growth.

Another key element of our mission is to provide positive contributions to our communities as good corporate citizens. In this regard, probably the best thing we do is provide meaningful and productive work for our people, allowing them to be pillars of their communities as they raise their families and provide for their loved ones. But we contribute to communities in many ways. We

tend to buy a significant amount of our products and services locally. We support local charities. A number of our divisions work hard on local education, skills development, co-op programs and the like. We contribute to policy initiatives in many places, at the local, state or federal government level. We are a good source of tax revenue. In each of our 48 facilities (including plants, offices and testing centres), located in 8 countries on four continents, we recognize the importance of being seen not only as a large international company, but as a pillar of the local economy. As such, we have Canadian, American, Mexican, German, Spanish, Slovakian, Brazilian and Chinese identities. We will be cheering for many countries in the 2016 Olympics! There is also a good business aspect to good citizenship of course – our people feel good, and they feel proud, to be part of our Company as we strive to be good for society.

At Martinrea we are well aware that we operate in a global industry, and macro events affect us in the automotive parts business, just as they affect us all in our personal lives. In the past year, we have seen many significant, some might say monumental, changes in the world scene. All these affect us. It is perhaps ironic that since year end, in a period that reflects in many ways the best of times for our industry, our valuation has decreased, although our enterprise value/EBITDA multiple seems to be in the range of other market participants – or has improved on a relative basis in many cases.

We are positive and optimistic about our industry. We recognize it is perceived as cyclical and it has gone through some tough times periodically. Industry volumes affect our revenues in many ways, but our views about overall volumes are positive, and can be summarized as follows. The automotive industry worldwide remains a growing one, as worldwide volumes are anticipated to continue to increase. We do have presence as a supplier in China, and while there has certainly been a slowdown in China, it remains a robust automotive market which is anticipated to grow. Our presence there is small at the present time, but our plants are likely to grow, just based on the book of business we have today. We have a presence in Europe which has seen some increases in volumes and is doing better as a region than a few years ago. Our presence is anticipated to grow, based on booked business for our operations in Spain and Germany, which is aluminum based business, and Slovakia, which is fluid management systems based business. North American volumes were robust in 2015; some commentators have stated they may have plateaued, and that is causing some concern for some. Our view is that volumes are going to continue to stay strong, and may increase, for the balance of the decade. Even in a time of general market caution, our view is that the fact remains that there are a number of critical tailwinds for the North American automotive industry that remain in place in 2016, at least today: population is expanding; miles driven is expanding; Mexico is experiencing a positive wealth effect increasing vehicle purchases; the average age of the typical vehicle in the U.S. is close to 12 years, up from 8 years a decade ago; financing rates are low; auto inventory levels remain at historically reasonable levels; the U.S. housing market is not overheated; consumer debt levels in the U.S. have improved; the North American economy is growing albeit at a very moderate rate. In addition to those factors, low oil and gas prices increase the affordability of driving a vehicle and lower commodity costs decrease our customers' costs in making a vehicle. It is to be remembered that current vehicle volumes are not at historically inflated levels – volumes today are similar to what they were 15 years ago or 10 years ago. We have certainly seen worse automotive environments.

As it relates to our position in the industry, our core product offerings are focused on areas critical to our industry. Our steel metalforming and aluminum businesses are focused on providing quality structural parts to the industry that are not only safe and strong, but lightweight. We are a company that is at the forefront of the trend to lightweighting of vehicles, in order to improve fuel economy or reduce carbon footprint. Our fluid management systems business is a leading edge provider of environmentally friendly fluid systems. Our capless filler products, for example, reduce pollution. Our coatings on our fluid management systems products are environmentally friendly. In sum, we have products that our customers need and we are leading edge providers of them.

We would be remiss if we do not outline our guiding principles in our message to you. They are core to us. We raise them in every critical meeting with our people. They form part of our investor and sales presentations. They reflect the way we run our business and treat our people, and they guide us as we perform our mission and fulfill our vision. We believe our success will ultimately be based on the application and execution of our guiding principles, applied with integrity, in all that we do. We firmly believe that if you lose the principles, and don't follow them, you lose your way. So briefly, here is the list:

1. We make great, high quality products
2. Every plant/division must be a centre of excellence
3. Be disciplined. Discipline is Key
4. We attract, train and work with excellent people, and we get our people to perform well
5. We are a team
6. Challenges make us better
7. Think Different
8. Work hard, play hard
9. The Golden Rule – Show Dignity and Respect
10. Our leadership team has to drive these messages consistently and simply. Leadership means having the will to ensure we get the right things done the right way.

And in all this, leadership has to act with integrity. If we strive to do the right thing, things will work out. That is our tone at the top, with our board, with our senior management, and with us.

We want to thank all of our stakeholders for their tremendous support in 2015. Our employees have helped build a company that is getting better all the time. They are dedicated and they work hard. Our customers continue to value us and show their faith in us by allowing us to help build their vehicles. Our lenders have always been there for us. Our shareholders have supported us. We will continue to focus on improving shareholder value over time, as we have done.

It is with immense pride and respect that we serve you all, and we will continue to do our very best to serve you well. We really have fun doing what we do, as do our people, and we believe our efforts in 2016 will result in another great year.

We look forward to the future.

(Signed) "*Rob Wildeboer*"

Rob Wildeboer  
Executive Chairman

(Signed) "*Pat D'Eramo*"

Pat D'Eramo  
President and Chief Executive Officer

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the Year ended December 31, 2015**

The following management discussion and analysis (“MD&A”) was prepared as of March 3, 2016 and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015 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, 2015, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (TSX:MRE) (“Martinrea” or the “Company”) is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs over 14,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

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

Results of operations 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 provides the most appropriate basis on which to evaluate the Company’s results.

**OVERALL RESULTS**

The following table sets out certain highlights of the Company’s performance for the years ended December 31, 2015 and 2014. Refer to the Company’s audited consolidated financial statements for the year ended December 31, 2015 for a detailed account of the Company’s performance for the periods presented in the table below.

	Year ended December 31, 2015	Year ended December 31, 2014	\$ Change	% Change
Sales	\$ 3,866,771	\$ 3,598,645	268,126	7.5%
Gross Margin	402,232	347,892	54,340	15.6%
Operating Income	161,761	131,900	29,861	22.6%
Net Income for the period	107,173	89,416	17,757	19.9%
Net Income Attributable to Equity Holders of the Company	\$ 107,030	\$ 71,304	35,726	50.1%
Net Earnings per Share – Basic	\$ 1.25	\$ 0.84	0.41	48.8%
Net Earnings per Share – Diluted	\$ 1.24	\$ 0.83	0.41	49.4%
<b><u>Non-IFRS Measures*</u></b>				
Adjusted Operating Income	\$ 178,870	\$ 147,748	31,122	21.1%
<i>as a % of Sales</i>	4.6%	4.1%		
Adjusted EBITDA	317,750	270,370	47,380	17.5%
<i>as a % of Sales</i>	8.2%	7.5%		
Adjusted Net Income Attributable to Equity Holders of the Company	118,788	83,386	35,402	42.5%
Adjusted Net Earnings per Share – Basic	\$ 1.38	\$ 0.99	0.39	39.4%
Adjusted Net Earnings per Share – Diluted	\$ 1.38	\$ 0.98	0.40	40.8%

The following table sets out a detailed account of the Company's performance for the fourth quarters of 2015 and 2014 (unaudited).

	Three months ended December 31, 2015	Three months ended December 31, 2014	\$ Change	% Change
Sales	\$ 1,035,314	\$ 943,781	91,533	9.7%
Cost of sales (excluding depreciation)	(899,291)	(828,698)	(70,593)	8.5%
Depreciation of property, plant and equipment (production)	(32,194)	(28,609)	(3,585)	12.5%
Gross Margin	103,829	86,474	17,355	20.1%
Research and development costs	(4,980)	(4,415)	(565)	12.8%
Selling, general and administrative expense	(51,027)	(56,112)	5,085	(9.1%)
Depreciation of property, plant and equipment (non-production)	(2,082)	(1,844)	(238)	12.9%
Amortization of customer contracts and relationships	(523)	(670)	147	(21.9%)
Restructuring costs	(1,718)	(3,542)	1,824	(51.5%)
Loss on disposal of property, plant and equipment	(523)	(234)	(289)	123.5%
Operating Income	\$ 42,976	\$ 19,657	23,319	118.6%
Finance costs	(5,837)	(6,379)	542	(8.5%)
Other finance income	866	1,246	(380)	(30.5%)
Income before income taxes	\$ 38,005	\$ 14,524	23,481	161.7%
Income tax expense	(10,179)	(2,598)	(7,581)	291.8%
Net Income for the period	27,826	11,926	15,900	133.3%
Net Income Attributable to Equity Holders of the Company	\$ 27,731	\$ 11,921	15,810	132.6%
Net Earnings per Share – Basic and Diluted	\$ 0.32	\$ 0.14	0.18	128.6%
<b>Non-IFRS Measures*</b>				
Adjusted Operating Income	\$ 44,694	\$ 33,944	10,750	31.7%
<i>as a % of Sales</i>	4.3%	3.6%		
Adjusted EBITDA	83,261	67,935	15,326	22.6%
<i>as a % of Sales</i>	8.0%	7.2%		
Adjusted Net Income Attributable to Equity Holders of the Company	29,059	22,832	6,227	27.3%
Adjusted Net Earnings per Share - Basic and Diluted	\$ 0.34	\$ 0.27	0.07	25.9%

**\*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” and “Adjusted EBITDA”. Unusual and other items are explained in the “Adjustments to Net Income” section of this MD&A.

The following tables provide a reconciliation of IFRS “Net Income Attributable to Equity Holders of the Company” to Non-IFRS “Adjusted Net Income Attributable to Equity Holders of the Company”, “Adjusted Operating Income” and “Adjusted EBITDA”:

	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
Net Income Attributable to Equity Holders of the Company	\$ 27,731	\$ 11,921	\$ 107,030	\$ 71,304
Unusual and Other Items (after-tax)*	1,328	10,911	11,758	12,082
Adjusted Net Income Attributable to Equity Holders of the Company	\$ 29,059	\$ 22,832	\$ 118,788	\$ 83,386

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

	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
Net Income Attributable to Equity Holders of the Company	\$ 27,731	\$ 11,921	\$ 107,030	\$ 71,304
Non-controlling interest	95	5	143	18,112
Income tax expense	10,179	2,598	34,247	21,823
Other finance income	(866)	(1,246)	(4,925)	(2,137)
Finance costs	5,837	6,379	25,266	22,798
Unusual and Other Items(before-tax)*	1,718	14,287	17,109	15,848
Adjusted Operating Income	\$ 44,694	\$ 33,944	\$ 178,870	\$ 147,748
Depreciation of property, plant and equipment	34,276	30,453	124,872	110,783
Amortization of intangible assets	3,768	3,304	14,238	11,518
Loss (gain) on disposal of property, plant and equipment	523	234	(230)	321
Adjusted EBITDA	\$ 83,261	\$ 67,935	\$ 317,750	\$ 270,370

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

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

## SALES

### **Three months ended December 31, 2015 to three months ended December 31, 2014 comparison**

	Three months ended December 31, 2015	Three months ended December 31, 2014	\$ Change	% Change
North America	\$ 837,607	\$ 756,716	80,891	10.7%
Europe	166,870	171,503	(4,633)	(2.7%)
Rest of the World	30,837	15,562	15,275	98.2%
Total Sales	\$ 1,035,314	\$ 943,781	91,533	9.7%

The Company's consolidated sales for the fourth quarter of 2015 increased by \$91.5 million or 9.7% to \$1,035.3 million as compared to \$943.8 million for the fourth quarter of 2014. The total increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the fourth quarter of 2015 in the Company's North America operating segment increased by \$80.9 million or 10.7% to \$837.6 million from \$756.7 million for the fourth quarter of 2014. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the fourth quarter of 2015 of approximately \$105.1 million as compared to the fourth quarter of 2014, and the launch of new programs during or subsequent to the fourth quarter of 2014, including the Ford Edge, Ford Transit and GM Colorado. These positive factors were offset by a \$22.9 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer, and lower year-over-year OEM production volumes on certain light-vehicle platforms late in their product life cycle such as the GM Camaro and Equinox. The planned shutdown of Chrysler's V6 Pentastar engine block program for re-tooling, which commenced during the fourth quarter of 2015, also negatively impacted production sales in North America during the quarter as compared to the comparative period of 2014. The re-tooling is expected to be complete by the end of the first quarter of 2016 at which time production volumes of the engine block are expected to increase back to levels experienced prior to the re-tooling.

Sales for the fourth quarter of 2015 in the Company's Europe operating segment decreased by \$4.6 million or 2.7% to \$166.9 million from \$171.5 million for the fourth quarter of 2014. The decrease can be attributed to lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by a \$4.6 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2014, increased production sales in the Company's operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlog of business, and a \$0.7 million increase in tooling sales.

Sales for the fourth quarter of 2015 in the Company's Rest of the World operating segment increased by \$15.3 million or 98.2% to \$30.8 million from \$15.6 million in the fourth quarter of 2014. The increase was mainly due to a year-over-year increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, a

\$3.1 million increase in tooling sales, and a \$0.8 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2014. Production sales for the fourth quarter of 2015 in the Company's operating facility in Brazil were down slightly year-over-year as OEM light vehicle production volumes in Brazil continue to trend at low levels.

Overall tooling sales decreased by \$19.1 million to \$62.6 million for the fourth quarter of 2015 from \$81.7 million for the fourth quarter of 2014.

***Year ended December 31, 2015 to year ended December 31, 2014 comparison***

	Year ended December 31, 2015		Year ended December 31, 2014		\$ Change	% Change
North America	\$	3,094,463	\$	2,851,370	243,093	8.5%
Europe		684,215		687,566	(3,351)	(0.5%)
Rest of the World		88,093		59,709	28,384	47.5%
Total Sales	\$	3,866,771	\$	3,598,645	268,126	7.5%

The Company's consolidated sales for the year ended December 31, 2015 increased by \$268.1 million or 7.5% to \$3,866.8 million as compared to \$3,598.6 million for the year ended December 31, 2014. The total increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the year ended December 31, 2015 in the Company's North America operating segment increased by \$243.1 million or 8.5% to \$3,094.5 million from \$2,851.4 million for the year ended December 31, 2014. The increase was due to the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2015 of approximately \$331.5 million as compared to the comparative period of 2014, and the launch of new programs during or subsequent to the year ended December 31, 2014, including the new Chrysler 200, BMW X6, Ford Edge, Ford Transit and GM Colorado. These positive variances were partially offset by a year-over-year decrease in tooling sales of \$82.1 million and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler Minivan platform, which was down for thirteen weeks during the first half of 2015 for re-tooling, and other platforms late in their product life cycle.

Sales for the year ended December 31, 2015 in the Company's Europe operating segment decreased by \$3.4 million or 0.5% to \$684.2 million from \$687.6 million for the year ended December 31, 2014. The decrease can be attributed to the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2015 of approximately \$25.6 million as compared to the comparable period of 2014, a \$5.6 million decrease in tooling sales, and lower overall production volumes in the Company's Martinrea Honsel German operations including the impact from the sale of the Company's operating facility in Soest, Germany on August 31, 2015; partially offset by increased production sales in the Company's operating facilities in Spain and Slovakia, which continue to ramp up and launch their backlog of business.

Sales for the year ended December 31, 2015 in the Company's Rest of the World operating segment increased by \$28.4 million or 47.5% to \$88.1 million from \$59.7 million for the year ended December 31, 2014. The increase can be attributed to an increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, and a \$4.8 million increase in tooling sales; partially offset by the translation of foreign denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2015 of \$0.3 million as compared to the comparative period of 2014. Production sales for 2015 in the Company's operating facility in Brazil were down slightly year-over-year as OEM light vehicle production volumes in Brazil continue to trend at low levels.

Overall tooling sales decreased by \$82.9 million to \$162.1 million for the year ended December 31, 2015 from \$245.0 million for the year ended December 31, 2014.

**GROSS MARGIN**

***Three months ended December 31, 2015 to three months ended December 31, 2014 comparison***

	Three months ended December 31, 2015		Three months ended December 31, 2014		\$ Change	% Change
Gross margin	\$	103,829	\$	86,474	17,355	20.1%
% of sales		10.0%		9.2%		

The gross margin percentage for the fourth quarter of 2015 of 10.0% increased as a percentage of sales by 0.8% as compared to the gross margin percentage for the fourth quarter of 2014 of 9.2%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations;
- new fluids systems plants in Slovakia and China which continue to ramp up and launch their backlog of business; and
- a decrease in tooling sales which typically earn low or no margins for the Company.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Mexico, China and Riverside, Missouri as these new plants execute on their backlog of new business;
- lower recoveries from scrap steel;
- operational inefficiencies and other costs at certain other facilities; and
- general sales mix including lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany.

***Year ended December 31, 2015 to year ended December 31, 2014 comparison***

	Year ended December 31, 2015		Year ended December 31, 2014		\$ Change	% Change
Gross margin	\$	402,232	\$	347,892	54,340	15.6%
% of sales		10.4%		9.7%		

The gross margin percentage for the year ended December 31, 2015 of 10.4% increased as a percentage of sales by 0.7% as compared to the gross margin percentage for the year ended December 31, 2014 of 9.7%. The increase in gross margin as a percentage of sales was generally due to:

- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations;
- new fluids systems plants in Slovakia and China which continue to ramp up and launch their backlog of new business; and
- a decrease in tooling sales which typically earn low or no margins for the Company.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China and Riverside, Missouri as these new plants execute on their backlog of new business;
- lower recoveries from scrap steel;
- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany; and
- the resolution of certain commercial disputes in the Company's European operations in 2014 which positively impacted the first quarter of 2014 as compared to the first quarter of 2015.

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

***Three months ended December 31, 2015 to three months ended December 31, 2014 comparison***

	Three months ended December 31, 2015		Three months ended December 31, 2014		\$ Change	% Change
Selling, general & administrative	\$	51,027	\$	56,112	(5,085)	(9.1%)
% of sales		4.9%		5.9%		

SG&A expense, before adjustments, for the fourth quarter of 2015 decreased by \$5.1 million to \$51.0 million as compared to \$56.1 million for the fourth quarter of 2014. Excluding the unusual and other item recorded in SG&A expense incurred during the fourth quarter of 2014 as explained in Table A under "Adjustments to Net Income", SG&A expense for the fourth quarter of 2015 increased by \$5.6 million to \$51.0 million from \$45.4 million for the comparative period. The increase is predominantly due to pre-operating costs incurred at new and/or expanded facilities, including incremental employment levels to support the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Excluding the unusual and other items recorded in SG&A expense incurred during the fourth quarter of 2014 as explained in Table A under "Adjustments to Net Income", SG&A expense as a percentage of sales remained relatively consistent year-over-year at 4.9% for the fourth quarter of 2015 compared to 4.8% for the comparative period of 2014.

**Year ended December 31, 2015 to year ended December 31, 2014 comparison**

	Year ended December 31, 2015		Year ended December 31, 2014		\$ Change	% Change
Selling, general & administrative	\$	193,610	\$	184,499	9,111	4.9%
% of sales		5.0%		5.1%		

SG&A expense, before adjustments, for the year ended December 31, 2015 increased by \$9.1 million to \$193.6 million as compared to \$184.5 million for the year ended December 31, 2014. Excluding the unusual and other items recorded in SG&A expense incurred during the years ended December 31, 2015 and 2014 as explained in Table B under "Adjustments to Net Income", SG&A expense for the year ended December 31, 2015 increased by \$20.0 million to \$192.2 million from \$172.2 million for the comparative period of 2014. The increase is predominantly due to pre-operating costs incurred at new and/or expanded facilities, including incremental employment levels to support the business.

Excluding the unusual and other items recorded in SG&A expense incurred during the years ended December 31, 2015 and 2014 as explained in Table B under "Adjustments to Net Income", SG&A expense as a percentage of sales increased year-over-year to 5.0% from 4.8% for the year ended December, 2014 due to pre-operating costs incurred at new and/or expanded facilities with currently no or a relatively low level of production.

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

**Three months ended December 31, 2015 to three months ended December 31, 2014 comparison**

	Three months ended December 31, 2015		Three months ended December 31, 2014		\$ Change	% Change
Depreciation of PP&E (production)	\$	32,194	\$	28,609	3,585	12.5%
Depreciation of PP&E (non-production)		2,082		1,844	238	12.9%
Amortization of customer contracts and relationships		523		670	(147)	(21.9%)
Amortization of development costs		3,245		2,634	611	23.2%
Total depreciation and amortization	\$	38,044	\$	33,757	4,287	12.7%

Total depreciation and amortization expense for the fourth quarter of 2015 increased by \$4.3 million to \$38.0 million as compared to \$33.8 million for the fourth quarter of 2014. The increase in total depreciation and amortization expense was primarily due to increases in depreciation expense on a larger PP&E base resulting from the growth in the Company's book of business and amortization of development costs as new and replacement programs, for which development costs were incurred, start production and reach peak volumes. A significant portion of the Company's recent investments relates to various new program launches put to use during or subsequent to the fourth quarter of 2014 as the Company has continued to work through its launch backlog. The Company continues to make significant investments in the business in light of a large backlog of business and a growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-over to 3.1% for the fourth quarter of 2015 from 3.0% for the fourth quarter of 2014 as recent investments in equipment are put to use.

*Year ended December 31, 2015 to year ended December 31, 2014 comparison*

	Year ended December 31, 2015		Year ended December 31, 2014		\$ Change	% Change
Depreciation of PP&E (production)	\$	117,387	\$	103,997	13,390	12.9%
Depreciation of PP&E (non-production)		7,485		6,786	699	10.3%
Amortization of customer contracts and relationships		2,134		2,485	(351)	(14.1%)
Amortization of development costs		12,104		9,033	3,071	34.0%
Total depreciation and amortization	\$	139,110	\$	122,301	16,809	13.7%

Total depreciation and amortization expense for the year ended December 31, 2015 increased by \$16.8 million to \$139.1 million as compared to \$122.3 million for the year ended December 31, 2014. Similar to the year-over-year quarterly trend noted above, the increase in total depreciation and amortization expense was primarily due to increases in depreciation expense on a larger PP&E base resulting from growth in the Company's book of business and amortization of development costs as new and replacement programs, for which development costs were incurred, started production and reached peak volumes.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-year to 3.0% for the year ended December 31, 2015 compared to 2.9% for the year ended December 31, 2014 as recent investments in equipment are put to use.

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

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

**TABLE A**

*Three months ended December 31, 2015 to three months ended December 31, 2014 comparison*

	For the three months ended December 31, 2015 (a)	For the three months ended December 31, 2014 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$27,731</b>	<b>\$11,921</b>	<b>\$15,810</b>
<b>Add back - Unusual and Other Items:</b>			
Restructuring costs (1)	1,718	3,542	(1,824)
Change in Chief Executive Officer (4)	-	10,745	(10,745)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>\$1,718</b>	<b>\$14,287</b>	<b>(\$12,569)</b>
Tax impact of above items	(390)	(3,376)	2,986
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>\$1,328</b>	<b>\$10,911</b>	<b>(\$9,583)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$29,059</b>	<b>\$22,832</b>	<b>\$6,227</b>
Number of Shares Outstanding – Basic ('000)	86,345	84,878	
Adjusted Basic Net Earnings Per Share	\$0.34	\$0.27	
Number of Shares Outstanding – Diluted ('000)	86,730	85,697	
Adjusted Diluted Net Earnings Per Share	\$0.34	\$0.27	

**TABLE B**

Year ended December 31, 2015 to year ended December 31, 2014 comparison

	For the year ended December 31, 2015	For the year ended December 31, 2014	(a)-(b) Change
	(a)	(b)	
<b>NET INCOME (A)</b>	<b>\$107,030</b>	<b>\$71,304</b>	<b>\$35,726</b>
<b>Add back - Unusual and Other Items:</b>			
Restructuring costs (1)	15,337	3,542	11,795
Executive separation agreement (2)	1,402	-	1,402
Loss on sale of assets and liabilities held for sale (3)	370	-	370
Change in Chief Executive Officer (4)	-	10,745	(10,745)
External legal and forensic accounting costs related to litigation (5)	-	1,561	(1,561)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>\$17,109</b>	<b>\$15,848</b>	<b>\$1,261</b>
Tax impact of above items	(5,351)	(3,766)	(1,585)
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>\$11,758</b>	<b>\$12,082</b>	<b>(\$324)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$118,788</b>	<b>\$83,386</b>	<b>\$35,402</b>
Number of Shares Outstanding – Basic ('000)	85,863	84,615	
Adjusted Basic Net Earnings Per Share	\$1.38	\$0.99	
Number of Shares Outstanding – Diluted ('000)	86,369	85,515	
Adjusted Diluted Net Earnings Per Share	\$1.38	\$0.98	

**(1) Restructuring costs**

As part of the acquisition of Honsel (as described in the "Acquisitions" section of this MD&A), a certain level of restructuring was planned in order to be cost competitive over the long term, in particular at the Company's operating facility in Meschede, Germany. In connection with these restructuring activities, \$13.6 million (€9.7 million) of employee related severance was recognized during the third quarter of 2015, and a further \$1.7 million (€1.2 million) was recognized during the fourth quarter of 2015 (of which \$0.3 million relates to the right sizing of the Company's facility in Brazil).

During the fourth quarter of 2014, the Company right sized the workforce at two operating facilities in Canada resulting in \$3.5 million in employee related severance costs.

**(2) Executive separation agreement**

On July 14, 2015, Danny Infusino stepped down as the Company's Executive Vice President of Business Development and Engineering and Vice President of Operations. The costs added back for Adjusted Net Income purposes represents Mr. Infusino's termination benefits (included in SG&A expense) as set out in his employment contract payable over an eighteen month period.

**(3) Loss on sale of assets and liabilities held for sale**

During the second quarter of 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets were sold for proceeds of \$20.6 million (€14.6 million) resulting in a pre-tax loss on sale of \$0.4 million (€0.3 million).

#### (4) Change in Chief Executive Officer

On November 1, 2014, Nick Orlando stepped down as Martinrea's President and Chief Executive Officer and Pat D'Eramo was appointed as the Company's President and Chief Executive Officer following a comprehensive search process conducted by the Company's Board of Directors, which appointed a search committee of its members to oversee the process and to work with an outside executive search firm to make assessments and recommendations. The costs added back for adjusted net income purposes in 2014 include \$8.4 million in termination benefits for Nick Orlando as set out in his employment contract payable over a two year period, \$0.9 million in fees paid to an outside executive search firm, a \$0.9 million signing bonus paid to Pat D'Eramo upon his arrival to the Company and \$0.5 million in stock based compensation expense related to certain stock options granted to Pat D'Eramo upon his arrival which had no vesting requirements.

#### (5) External legal and forensic accounting costs related to litigation

The costs added back for Adjusted Net Income purposes for the year ended December 31, 2014 reflects the legal and forensic accounting costs not covered by insurance (recorded as SG&A expense) incurred by the Company in relation to specific litigation matters outside the ordinary course of business as outlined in the Company's Annual Information Form for the year ended December 31, 2015.

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

#### *Three months ended December 31, 2015 to three months ended December 31, 2014 comparison*

	Three months ended December 31, 2015		Three months ended December 31, 2014		\$ Change	% Change
Net Income	\$	27,731	\$	11,921	15,810	132.6%
Adjusted Net Income	\$	29,059	\$	22,832	6,227	27.3%
Net Earnings per share						
Basic	\$	0.32	\$	0.14		
Diluted	\$	0.32	\$	0.14		
Adjusted Net Earnings per share						
Basic	\$	0.34	\$	0.27		
Diluted	\$	0.34	\$	0.27		

Net income, before adjustments, for the fourth quarter of 2015 increased by \$15.8 million to \$27.7 million from \$11.9 million for the fourth quarter of 2014. Excluding the unusual and other items incurred during the fourth quarters of 2015 and 2014 as explained in Table A under "Adjustments to Net Income", net income for the fourth quarter of 2015 increased to \$29.1 million or \$0.34 per share, on a basic and diluted basis, from \$22.8 million or \$0.27 per share, on a basic and diluted basis, for the fourth quarter of 2014.

Adjusted Net Income for the fourth quarter of 2015, as compared to the fourth quarter of 2014, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations; and
- new fluids systems plants in Slovakia and China, which continue to ramp up and launch their backlog of new business.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Mexico, China, and Riverside, Missouri as these new plants execute on their backlog of new business;
- lower recoveries from scrap steel;
- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany;
- a higher effective tax rate on adjusted pre-tax income due generally to the mix of earnings (26.6% for the fourth quarter of 2015 compared to 20.7% for the fourth quarter of 2014); and
- a year-over-year increase in SG&A expense as previously discussed.

**Three months ended December 31, 2015 actual to guidance comparison:**

On November 5, 2015, the Company provided the following guidance for the fourth quarter of 2015:

	Guidance		Actual	
Production sales (in millions)	\$	930 - 970	\$	973
Adjusted Net Earnings per Share				
Basic & Diluted	\$	0.30 - 0.34	\$	0.34

For the fourth quarter of 2015, while Adjusted Net Earnings per share was within the range of published guidance, production sales of \$973 million slightly exceeded the high end of the range primarily as a result of higher than expected volumes across several vehicle platforms and fluctuations in foreign exchange rates and the corresponding impact on the translation of foreign denominated sales to the Company's Canadian dollar reporting currency.

**Year ended December 31, 2015 to year ended December 31, 2014 comparison**

	Year ended December 31, 2015		Year ended December 31, 2014		\$ Change	% Change
Net Income	\$	107,030	\$	71,304	35,726	50.1%
Adjusted Net Income	\$	118,788	\$	83,386	35,402	42.5%
Net Earnings per share						
Basic	\$	1.25	\$	0.84		
Diluted	\$	1.24	\$	0.83		
Adjusted Net Earnings per share						
Basic	\$	1.38	\$	0.99		
Diluted	\$	1.38	\$	0.98		

Net income, before adjustments, for the year ended December 31, 2015 increased by \$35.7 million to \$107.0 million from \$71.3 million for the year ended December 31, 2014. Excluding the unusual and other items incurred during the years ended December 31, 2015 and 2014 as explained in Table B under "Adjustments to Net Income", net income for the year ended December 31, 2015 increased to \$118.8 million or \$1.38 per share, on a basic and diluted basis, from \$83.4 million or \$0.99 per share, on a basic basis, and \$0.98 per share, on a diluted basis, for the year ended December 31, 2014.

Adjusted Net Income for the year ended December 31, 2015, as compared to the year ended December 31, 2014, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations;
- new fluids systems plants in Slovakia and China, which continue to ramp up and launch their backlog of new business;
- the inclusion of 100% of the net earnings from the Martinrea Honsel group after the Company purchased the 45% non-controlling interest on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction); and
- a net foreign exchange gain of \$4.8 million for the year ended December 31, 2015 compared to a net foreign exchange gain of \$1.9 million for the comparative period of 2014.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants execute on their backlog of new business;
- lower recoveries from scrap steel;
- operational inefficiencies and other costs at certain other facilities;
- general sales mix including lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany;
- the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015;
- a higher effective tax rate on adjusted pre-tax income due generally to the mix of earnings (25.0% for the year ended December 31, 2015 compared to 20.1% for the comparative period of 2014); and

- year-over-year increases in SG&A expense as previously discussed, research and development expenses, due predominantly to increased amortization of development costs, and finance expense related to increased levels of debt primarily used to sustain the increased level of capital expenditures related to new program launches and to fund the purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see “Acquisitions” section of this MD&A for further details on the transaction).

## **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

### ***Three months ended December 31, 2015 to three months ended December 31, 2014 comparison***

	<b>Three months ended December 31, 2015</b>		<b>Three months ended December 31, 2014</b>		<b>\$ Change</b>	<b>% Change</b>
Additions to PP&E	\$	85,683	\$	67,424	18,259	27.1%

Additions to PP&E increased by \$18.3 million to \$85.7 million in the fourth quarter of 2015 from \$67.4 million in the fourth quarter of 2014 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales increased year-over-year to 8.3% for the fourth quarter of 2015 from 7.1% for the fourth quarter of 2014. While capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in the fourth quarter of 2015 continued to be for manufacturing equipment and multiple expansions for programs that recently launched or will be launching over the next 24 months.

### ***Year ended December 31, 2015 to year ended December 31, 2014 comparison***

	<b>Year ended December 31, 2015</b>		<b>Year ended December 31, 2014</b>		<b>\$ Change</b>	<b>% Change</b>
Additions to PP&E	\$	215,219	\$	203,801	11,418	5.6%

Additions to PP&E increased by \$11.4 million year-over-year to \$215.2 million for the year ended December 31, 2015 compared to \$203.8 million for the year ended December 31, 2014 due generally to the timing of expenditures and the impact of foreign exchange on the translation of foreign denominated purchases. Additions as a percentage of sales decreased slightly year-over-year to 5.6% for the year ended December 31, 2015 from 5.7% for the comparative period of 2014. Despite the slight decrease as a percentage of sales, the Company continues to make investments in the business in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants execute on their backlog of new business.

## **SEGMENT ANALYSIS**

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

### ***Three months ended December 31, 2015 to three months ended December 31, 2014 comparison***

	<b>SALES</b>		<b>OPERATING INCOME (LOSS)*</b>	
	<b>Three months ended December 31, 2015</b>	<b>Three months ended December 31, 2014</b>	<b>Three months ended December 31, 2015</b>	<b>Three months ended December 31, 2014</b>
North America	\$ 837,607	\$ 756,716	\$ 34,202	\$ 24,569
Europe	166,870	171,503	11,975	12,834
Rest of the World	30,837	15,562	(1,483)	(3,459)
Adjusted Operating Income			\$ 44,694	\$ 33,944
Unusual and Other Items*			(1,718)	(14,287)
<b>Total</b>	<b>\$ 1,035,314</b>	<b>\$ 943,781</b>	<b>\$ 42,976</b>	<b>\$ 19,657</b>

\* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$1.7 million of unusual and other items incurred during the fourth quarter of 2015, \$1.4 million was incurred in Europe and \$0.3 million in the Rest of the World. The \$14.3 million of unusual and other items for the fourth quarter of 2014 was incurred in the North America operating segment. 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 \$9.6 million to \$34.2 million for the fourth quarter of 2015 from \$24.6 million for the fourth quarter of 2014. Adjusted Operating Income in North America was positively impacted by:

- higher gross profit from an overall increase in year-over-year production sales as previously explained; and
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at two new operating facilities in Mexico and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- lower recoveries from scrap steel;
- general sales mix; and
- operational inefficiencies and other costs at certain other facilities.

## Europe

Adjusted Operating Income in Europe decreased by \$0.8 million to \$12.0 million for the fourth quarter of 2015 from \$12.8 million for the fourth quarter of 2014. The operating results in Europe were positively impacted by a new fluids systems plant in Slovakia, which continues to ramp up and launch its backlog of new business as launch costs subside. The positive impact from the Slovakia facility during the quarter was more than offset by the impact of lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany.

## Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year. The improved operating results were due to increased production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, partially offset by increased pre-operating costs at a new aluminum operating facility in China as the plant prepares for its inaugural new program launch in 2016.

### *Year ended December 31, 2015 to year ended December 31, 2014 comparison*

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
North America	\$ 3,094,463	\$ 2,851,370	\$ 154,603	\$ 105,264
Europe	684,215	687,566	33,425	53,160
Rest of the World	88,093	59,709	(9,158)	(10,676)
Adjusted Operating Income			\$ 178,870	\$ 147,748
Unusual and Other Items*			(17,109)	(15,848)
Total	\$ 3,866,771	\$ 3,598,645	\$ 161,761	\$ 131,900

\* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$17.1 million of unusual and other items incurred during the year ended December 31, 2015, \$15.4 million was incurred in Europe, \$1.4 million in North America and \$0.3 million in the Rest of the World. The \$15.8 million of unusual and other items for the year ended December 31, 2014 was incurred in the North America operating segment. 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 \$49.3 million to \$154.6 million for the year ended December 31, 2015 from \$105.3 million for the year ended December 31, 2014. Adjusted Operating Income in North America was positively impacted by:

- higher gross profit from an overall increase in year-over-year production sales as previously explained; and
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. metallic operations.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at two new operating facilities in Mexico and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- lower recoveries from scrap steel;
- general sales mix; and
- operational inefficiencies and other costs at certain other facilities.

## Europe

Adjusted Operating Income in Europe decreased by \$19.8 million to \$33.4 million for the year ended December 31, 2015 from \$53.2 million for the year ended December 31, 2014. Adjusted Operating Income in Europe was negatively impacted by program specific launch and pre-operating costs at a new operating facility in Spain, as the plant executes on its backlog of new business, and in Slovakia, as the plant continues to ramp up its book of business; lower production volumes in the Company's Martinrea Honsel operating facility in Meschede, Germany; and the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015.

## Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year. The improved operating results were due to increased production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, partially offset by increased pre-operating costs at a new aluminum operating facility in China as the plant prepares for its inaugural new program launch in 2016 and the impact of lower OEM light vehicle production volumes in Brazil.

### **SUMMARY OF QUARTERLY RESULTS** **(unaudited)**

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	1,035,314	929,880	984,046	917,531	943,781	859,456	930,915	864,493
Gross Margin	103,829	96,385	106,379	95,639	86,474	78,076	95,863	87,479
Net Income	27,826	15,232	33,607	30,508	11,926	21,205	29,626	26,659
Net Income Attributable to Equity Holders of the Company	27,731	15,469	33,411	30,419	11,921	19,384	23,308	16,691
Adjusted Net Income attributable to Equity Holders of the Company	29,059	25,899	33,411	30,419	22,832	19,384	23,614	17,556
Basic Net Earnings per Share	0.32	0.18	0.39	0.36	0.14	0.23	0.28	0.20
Diluted Net Earnings per Share	0.32	0.18	0.39	0.36	0.14	0.23	0.27	0.20
Adjusted Basic Net Earnings per Share	0.34	0.30	0.39	0.36	0.27	0.23	0.28	0.21
Adjusted Diluted Net Earnings per Share	0.34	0.30	0.39	0.36	0.27	0.23	0.28	0.21

### **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 December 31, 2015, the Company had total equity attributable to equity holders of the Company of \$776.3 million. As at December 31, 2015, the Company's ratio of current assets to current liabilities was 1.2:1. The Company's current working capital level of \$164.0 million and existing credit facilities (discussed below) are 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 credit facilities or asset backed financing.

## **CASH FLOWS**

	Three months ended December 31, 2015	Three months ended December 31, 2014	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 81,046	\$ 53,185	27,861	52.4%
Change in non-cash working capital items	15,062	59,943	(44,881)	(74.9%)
	96,108	113,128	(17,020)	(15.0%)
Interest paid	(6,825)	(6,106)	(719)	11.8%
Income taxes paid	(2,905)	(7,164)	4,259	(59.5%)
Cash provided by operating activities	86,378	99,858	(13,480)	(13.5%)
Cash used in financing activities	(20,175)	(6,641)	(13,534)	203.8%
Cash used in investing activities	(45,913)	(64,473)	18,560	(28.8%)
Effect of foreign exchange rate changes on cash and cash equivalents	713	(1,628)	2,341	(143.8%)
Increase in cash and cash equivalents	\$ 21,003	\$ 27,116	(6,113)	(22.5%)

Cash provided by operating activities during the fourth quarter of 2015 was \$86.4 million, compared to cash provided by operating activities of \$99.9 million in the corresponding period of 2014. The components for the fourth quarter of 2015 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$81.0 million;
- working capital items source of cash of \$15.1 million comprised of a decrease in trade and other receivables of \$52.0 million, a decrease in inventories of \$1.6 million and a decrease in prepaid expenses and deposits of \$7.8 million, partially offset by a decrease in trade, other payables and provisions of \$46.3 million;
- interest paid (excluding capitalized interest) of \$6.8 million; and
- income taxes paid of \$2.9 million.

Cash used by financing activities during the fourth quarter of 2015 was \$20.2 million, compared to \$6.6 million used in the corresponding period in 2014, as a result of an \$18.0 million net decrease in long term debt (including repayments on the Company's revolving banking facility and asset backed financing arrangements), and \$2.6 million in dividends paid; partially offset by \$0.5 million in proceeds from the exercise of employee stock options. The \$6.6 million in cash used in financing activities during the fourth quarter of 2014 was the result of \$20.1 million of scheduled debt repayments on asset based financing arrangements and \$2.5 million in dividends paid; partially offset by proceeds of \$14.8 million from an equipment loan in the Company's Spanish operations and \$1.2 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the fourth quarter of 2015 was \$45.9 million, compared to \$64.5 million in the corresponding period in 2014. The components for the fourth quarter of 2015 primarily include the following:

- cash additions to PP&E of \$42.5 million;
- capitalized development costs relating to upcoming new program launches of \$3.6 million; partially offset by
- proceeds from the disposal of PP&E of \$0.2 million.

The cash used in investing activities of \$64.5 million in the fourth quarter of 2014 included \$60.5 million in cash additions to PP&E and \$4.3 million in capitalized development costs relating to upcoming new program launches; partially offset by \$0.3 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of \$7.9 million at the beginning of the fourth quarter of 2015, and the activities described above, the cash and cash equivalents balance at December 31, 2015 was \$28.9 million.

	Year ended December 31, 2015	Year ended December 31, 2014	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 307,511	\$ 258,537	48,974	18.9%
Change in non-cash working capital items	(38,635)	65,961	(104,596)	(158.6%)
	268,876	324,498	(55,622)	(17.1%)
Interest paid	(24,259)	(21,429)	(2,830)	13.2%
Income taxes paid	(51,990)	(38,715)	(13,275)	34.3%
Cash provided by operating activities	192,627	264,354	(71,727)	(27.1%)
Cash provided by (used in) financing activities	(46,818)	189,042	(235,860)	(124.8%)
Cash used in investing activities	(171,456)	(458,141)	286,685	(62.6%)
Effect of foreign exchange rate changes on cash and cash equivalents	2,145	922	1,223	132.6%
Decrease in cash and cash equivalents	\$ (23,502)	\$ (3,823)	(19,679)	514.8%

Cash provided by operating activities during the year ended December 31, 2015 was \$192.6 million, compared to cash provided by operating activities of \$264.4 million in the corresponding period of 2014. The components for the year ended December 31, 2015 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$307.5 million;
- working capital items use of cash of \$38.6 million comprised of an increase in trade and other receivables of \$9.9 million; an increase in inventories of \$15.4 million, an increase in prepaid expenses and deposits of \$2.5 million, and a decrease in trade, other payables and provisions of \$10.8 million;
- interest paid (excluding capitalized interest) of \$24.3 million; and
- income taxes paid of \$52.0 million due to the timing of final income tax payments for 2014 and cash instalments for 2015.

Cash used in financing activities during the year ended December 31, 2015 was \$46.8 million, compared to cash provided of \$189.0 million in the corresponding period in 2014, as a result of a \$47.6 million net decrease in long term debt (including repayments on the Company's revolving credit facility and asset based financing arrangements) and \$10.3 million in dividends paid; partially offset by \$11.1 million in proceeds from the exercise of employee stock options during the period.

The \$189.0 million in cash used in financing activities during the year ended December 31, 2014 was the result of \$217.8 million net drawn on the Company's amended banking facility (see below under "Financing") primarily to fund the purchase of the 45% non-controlling interest in Martinrea Honsel on August 7, 2014 (see below under "Acquisitions"), proceeds from equipment loans of \$29.2 million and \$3.0 million in proceeds from the exercise of employee stock options during the year; partially offset by the repayment of the shareholder loan held by the non-controlling shareholder in Martinrea Honsel of \$13.1 million, \$37.8 million of scheduled debt repayments on asset based financing arrangements and \$10.2 million in dividends paid.

Cash used in investing activities during the year ended December 31, 2015 was \$171.5 million, compared to \$458.1 million in the corresponding period in 2014. The components for the year ended December 31, 2015 primarily include the following:

- cash additions to PP&E of \$179.6 million;
- capitalized development costs relating to upcoming new program launches of \$15.2 million; partially offset by
- proceeds from the sale of assets and liabilities held for sale of \$20.6 million; and
- proceeds from the disposal of PP&E of \$2.7 million.

The cash used in investing activities of \$458.1 million during the year ended December 31, 2014 included \$203.6 million in cash additions to PP&E, \$20.5 million in capitalized development costs relating to upcoming new program launches and the \$235.7 million purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction); partially offset by \$1.6 million in proceeds from the disposal of PP&E.

Taking into account the opening cash balance of \$52.4 million at the beginning of 2015, and the activities described above, the cash and cash equivalents balance at December 31, 2015 was \$28.9 million.

## **Financing**

On August 6, 2014, the Company's banking facility was amended to increase the total available revolving credit lines under the facility and add two new banks to the lending syndicate. The increase in credit lines facilitated the purchase of the 45% non-controlling interest in Martinrea Honsel as further described below. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

- available revolving credit lines of \$300 million and US \$350 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$100 million;
- pricing terms at market rates; and
- a maturity date of August 2018.

As at December 31, 2015, the Company had drawn US\$220 million (December 31, 2014 – US\$235 million) on the U.S. revolving credit line and \$273 million (December 31, 2014 - \$278 million) on the Canadian revolving credit line.

Net debt (i.e. long term debt less cash on hand) increased by \$48.1 million from \$640.0 million at December 31, 2014 to \$688.1 million at December 31, 2015 due to the impact of foreign exchange translation on foreign denominated debt. Excluding the impact of foreign exchange translation, net debt decreased by \$22.0 million during the year ended December 31, 2015.

The Company was in compliance with its debt covenants as at December 31, 2015.

## **Dividends**

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends are to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter, the most recent quarterly dividend being paid on January 15, 2016. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In addition, the Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

## **Guarantees**

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2013 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2015 the amount of off-balance sheet program financing was \$85.5 million (December 31, 2014 - \$17.2 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

## **ACQUISITIONS**

On July 29, 2011, the Company closed an agreement to purchase a controlling interest in the assets of Honsel, a German-based leading supplier of aluminum components for the automotive and industrial sectors forming the Martinrea Honsel group. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction, acquiring 55%, with Anchorage owning the remaining 45%.

Martinrea Honsel develops and manufactures complex aluminum products using state-of-the-art production technologies including high pressure die-casting, permanent mold, sand casting and rolling.

The Martinrea Honsel group provides the Company with a significant presence in the aluminum automotive parts market, and broadens the Company's metal forming capabilities and offerings. It also creates a more significant geographic presence outside North America, which the Company intends to grow over time. The Company's customer base was further expanded with the acquisition, with many of the larger European based OEMs being significant customers of Martinrea Honsel.

Initially, the 2011 purchase transaction envisaged the purchase of all of Honsel's operations, which included plants in Germany located in Meschede, Nuremberg, Soest, and Nuttlar, as well as Madrid, Spain, Queretaro, Mexico, and Monte Mor, Brazil. The Nuremberg facility was subsequently sold to ZF Friedrichshafen AG ("ZF"), the primary customer of the facility, immediately after the closing of the purchase transaction. After factoring in the sale of the Nuremberg facility to ZF, the net cash consideration for the acquisition was €62,125 (\$85,272), of which Martinrea's 55% portion was €34,169 (\$46,900).

As part of the transaction, the Company granted Anchorage a put option which, if exercised, would have required the Company to purchase Anchorage's 45% interest in Martinrea Honsel Holdings B.V. The put option would have become effective on April 1, 2015 with an expiry date of October 1, 2017. The put option provided a formula for determining the purchase price of the shares, designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provided an arbitration mechanism in the event that the two parties were unable to agree on the ultimate price.

On August 7, 2014, prior to the put option becoming exercisable, Martinrea acquired from Anchorage the remaining 45% equity interest in the Martinrea Honsel group for a negotiated purchase price of €160,000 (\$235,667 Canadian). Effective August 7, 2014, the Martinrea Honsel group is wholly owned by Martinrea. The transaction resulted in the carrying value of the put option liability on the date of the transaction being reversed out of other equity and the carrying amount of Anchorage's share of equity in Martinrea Honsel being reversed from non-controlling interest. The \$127,198 difference of the consideration paid and the carrying amount of the non-controlling interest at the date of the transaction was recognized in accumulated deficit.

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany, which formed part of the above described Martinrea Honsel group, were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets of the facility were sold for proceeds of \$20,638 (€14,588) resulting in a pre-tax loss on sale of \$370 (€257).

The acquisition while bringing many benefits to Martinrea also provides some risks for the Company. Both the initial 2011 purchase of the 55% controlling interest and subsequent purchase of the remaining 45% equity interest in Martinrea Honsel were financed by the Company using available credit lines, which has increased the Company's debt levels. See also "Risks and Uncertainties".

## **RISKS AND UNCERTAINTIES**

The following risk factors, as well as the other information contained in this Annual Information Form, the Company's MD&A for the year ended December 31, 2015 or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The Company's success is primarily dependent upon the levels of car and light truck production by its customers and the relative amount of content the Company has on their various vehicle programs. OEM production volumes may be impacted by many factors including general economic and political conditions, interest rates, credit availability, energy and fuel prices, international conflicts, labour relations issues, regulatory requirements, trade agreements, infrastructure considerations, legislative changes, and environmental emissions standards and safety issues.

### **North American and Global Economic and Political Conditions**

The automotive industry is global, cyclical and sensitive to changes in economic and political conditions, including interest rates, currency issues, energy prices and international or domestic conflicts or political crises.

The Company operates in the midst of a volatile industry, which in the past decade has experienced a significant recession, particularly severe in North America and more recently Europe. Although there has been stabilization or growth in North America, current conditions continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the

future. While the Company believes it has sufficient liquidity and a strong balance sheet to deal with present economic conditions, lower sales and production volumes in certain areas may occur.

### **Automotive Industry Risks**

The automotive industry is highly cyclical and dependent on, among other factors, consumer spending and general economic conditions in North America and elsewhere. Future sales and production volumes are anticipated to grow modestly or stabilize in North America over the next several years, and have grown in the past several years, but growth rates are uncertain, and volume levels can decrease at any time. In Europe, the automotive industry has significant overcapacity as well as reduced sales and production levels, which can lead to downsizing and restructuring costs, or costs associated with overcapacity. Increased emphasis on the reduction of fuel consumption, fuel emissions and greenhouse gas emissions could also reduce demand for automobiles overall or specific platforms on which the Company has product, especially in the light truck segment. There can be no assurance that North American or European automotive production overall or on specific platforms will not decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of new automobiles overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants.

### **Dependence Upon Key Customers**

Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, or reduced sales of automotive platforms of such customers, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. In addition, a work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers or an extended customer shutdown could have a significant impact on the Company's revenue and/or profits.

### **Financial Viability of Suppliers**

The Company relies on a number of suppliers to supply a wide range of products and components required in connection with the business. Economic conditions, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (fires, hurricanes, earthquakes) can result in many automotive suppliers experiencing varying degrees of financial distress. The continued financial distress or the insolvency or bankruptcy of any such supplier could disrupt the supply of products, materials or components to Martinrea or to customers, potentially causing the temporary shut-down of the Company's or customers' production lines. Martinrea has experienced supply disruptions of varying natures in the past, including in cases where an equipment supplier has gone out of business, or an act of God resulted in the shortage of a key commodity. There is a risk some suppliers may not have adequate capacity to timely accommodate increases in demand for their products which could lead to production disruption for the customer. Any prolonged disruption in the supply of critical components, the inability to re-source production of a critical component from a distressed automotive components sub-supplier, or any temporary shut-down of production lines or the production lines of a customer, could have a material adverse effect on profitability. Additionally, the insolvency, bankruptcy, financial restructuring or force majeure event of any critical suppliers could result in the Company incurring unrecoverable costs related to the financial work-out or resourcing costs of such suppliers and/or increased exposure for product liability, warranty or recall costs relating to the components supplied by such suppliers to the extent such supplier is not able to assume responsibility for such amounts, each of which could have an adverse effect on the Company's profitability. Also see "Dependence Upon Key Customers".

### **Competition**

The markets for fluid handling systems, cast aluminum products and fabricated metal products and assemblies for automotive and industrial customers are highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources than the Company. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

### **Cost Absorption and Purchase Orders**

Given the current trends in the automotive industry, the Company is under continuing pressure to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling in addition to items previously paid for directly

by OEMs. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through the piece price of the applicable component. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the product development, design, engineering, prototype and validation costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

### **Material Prices**

Prices for key raw materials and commodities used in parts production, particularly aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. Martinrea has attempted to mitigate its exposure to price increases of key commodities, particularly steel and aluminum (through participation in steel resale programs or price adjustment mechanisms); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content, by passing commodity price increases to customers or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also impact on production or transportation costs which in turn could affect competitiveness.

### **Outsourcing and Insourcing Trends**

The Company is dependent on the outsourcing of components, modules and assemblies by OEMs. The extent of OEM outsourcing is influenced by a number of factors, including relative cost, quality and timeliness of production by suppliers as compared to OEMs, capacity utilization, and labour relations among OEMs, their employees and unions. As a result of any favourable terms in collective bargaining agreements which may lower cost structures, the Detroit 3 OEMs may insource some production which had previously been outsourced, or not outsource production which may otherwise be outsourced at some point. Outsourcing of some assembly is particularly dependent on the degree of unutilized capacity at the OEMs' own assembly facilities, in addition to the foregoing factors. A reduction in outsourcing by OEMs, or the loss of any material production or assembly programs coupled with the failure to secure alternative programs with sufficient volumes and margins, could have a material adverse effect on profitability.

### **Product Warranty, Recall and Liability Risk**

Automobile manufacturers are increasingly requesting that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

### **Product Development and Technological Change**

The automotive industry is characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices. The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's results of operations. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols. There can be no assurance that the Company will be successful in its efforts in these respects.

## **Dependence Upon Key Personnel**

The success of the Company is dependent on the services of a number of the members of its senior management. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. The loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company does not currently maintain key man insurance.

## **Limited Financial Resources/Uncertainty of Future Financing/Banking**

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Additional equity financings may result in substantial dilution to existing shareholders.

## **Acquisitions**

The Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products. The completion of such transactions poses additional risks to the Company's business. The benefit to the Company of previous and future acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products into the Company, and the Company may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). The Company cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Company. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt. Such transactions may involve partners, and the formula for determining contractual sale provisions may be subject to a variety of factors that may not be easily quantified or estimated until the time of sale (such as market conditions and determining fair market value).

## **Potential Rationalization Costs and Turnaround Costs**

The Company has incurred restructuring costs over the past several years. In response to the increasingly competitive automotive industry conditions, it is likely that the Company will continue to rationalize some production facilities. In the course of such rationalization, restructuring costs related to plant closings or alterations, relocations and employee severance costs will be incurred. Such costs could have an adverse effect on short-term profitability. In addition, while the Company's goal is for every plant to be profitable, there is no assurance this will occur, which will likely result in a rationalizing or closing of the plant. Martinrea is working to turn around any financially underperforming divisions, however, there is no guarantee that it will be successful in doing so with respect to some or all such divisions. The continued underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

## **Launch and Operational Costs**

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years.

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability.

## **Potential Volatility of Share Prices**

The market price of the Company's common shares has been, and will likely continue to be, subject to significant fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares is low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating results, the gain or loss of significant contracts, announcements of technological or competitive developments by the Company or its competitors, acquisitions or entry into

strategic alliances by the Company or its competitors, the gain or loss of a significant customer or strategic relationship, changes in estimates of the Company's financial performance, changes in recommendations from securities analysts regarding the Company, the industry or its customers' industries, litigation involving the Company or its officers and general market or economic conditions.

### **Changes in Laws and Governmental Regulations**

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to the North American Free Trade Agreement, the TPP, or the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States.

### **Labour Relations Matters**

The Company has a significant number of its employees subject to collective bargaining agreements, as do many of the Company's customers and suppliers. To date, the Company has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes (including labour disputes of the Company's customers and suppliers), whether in the context of potential restructuring or in connection with negotiations undertaken to ensure a division's competitiveness, or otherwise, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations. The Company cannot predict whether and when any labour disruption may arise or how long such disruption could last. A significant labour disruption could lead to a lengthy shutdown of the Company or its customers' or suppliers' facilities or production lines, which could have a material adverse effect on the Company's operations and profitability.

### **Litigation and Regulatory Compliance and Investigations**

The Company has been and is involved in litigation from time to time and has received, in the past, letters from third parties alleging claims and claims have been made against it including those described under "Legal Proceedings". Although litigation claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. There can be no assurance that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements. There can be no assurance that such arrangements will be available on reasonable terms, or at all. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome or determine the amount of any potential losses of the law suits referenced under "Legal Proceedings" and any other claims to which the Company may be subject. In addition, there is no assurance that the Company will be successful in a litigation matter. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations. See "Legal Proceedings". The Company's policy is to comply with all applicable laws. However, the Company may also be subject to regulatory risk in the markets in which it operates. Regulatory investigations, if any, can continue for several years, and depending on the jurisdiction and type of proceeding can result in administrative or civil or criminal penalties that could have a material adverse effect on the Company's profitability (even where the Company is innocent, investigations can be expensive to defend). Additionally, the Company could be subject to other consequences including reputational damage, which could have a material adverse effect on the Company.

### **Currency Risk - Hedging**

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the U.S. dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To date, the Company has engaged in some hedging activities to mitigate the risk of identified exchange rate exposures. To the extent the Company may seek to implement more substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

### **Currency Risk – Competitiveness in Certain Jurisdictions**

The appreciation of the Canadian dollar against the U.S. dollar (and other currencies) over the past several years negatively affected the competitiveness of the Company's Canadian operations in this respect against the operations in the U.S. and Mexico, as well as other jurisdictions, of competitors and the operations of the Company in those jurisdictions. More recently, the Canadian dollar has depreciated against the U.S. dollar. One result of the general Canadian dollar appreciation over the last decade affecting the Company has been that some existing work has been moved to the U.S. or Mexico, or work has been sourced to U.S. or Mexican divisions as opposed to Canadian divisions, in order for the Company to remain or become competitive. These work shifts may entail significant restructuring and other costs as work is shifted, as Canadian plants are consolidated, downsized or closed, or as plants in the U.S. or Mexico are expanded.

## **Fluctuations in Operating Results**

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers (which tend to include a shutdown period in each of July and December), pricing policies, launch costs, or operational (or equipment or systems) failures, or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns or limitations on spending.

## **Internal Controls Over Financial Reporting and Disclosure Controls and Procedures**

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Company. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of the Company to continue its business as presently constituted. The Company has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, the Company assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. The Company's current system of internal and disclosure controls also places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

## **Environmental Regulation**

The Company is subject to a variety of environmental regulations by the federal, provincial and municipal authorities in Canada, the United States, Mexico, South America, Europe and China that govern, among other things, soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases, into the environment; and health and safety. If the Company fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators or become subject to litigation. Environmental and pollution control laws, regulations and permits, and the enforcement thereof, change frequently, have tended to become more stringent over time and may necessitate substantial capital expenditures or operating costs.

Under certain environmental requirements, the Company could be responsible for costs relating to any contamination at the Company's or a predecessor entity's current or former owned or operated properties or third-party waste-disposal sites, even if the Company was not at fault. In addition to potentially significant investigation and cleanup costs, contamination can give rise to third-party claims for fines or penalties, natural resource damages, personal injury or property damage.

The Company's customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility.

The Company cannot provide assurances that the Company's costs, liabilities and obligations relating to environmental matters (or any issues that may arise as a result of its customers' own environmental compliance) will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

## **A Shift Away from Technologies in Which the Company is Investing**

The Company continues to invest in technology and innovation which the Company believes will be critical to its long-term growth. The Company's ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products and/or manufacturing processes on a timely basis will be a significant factor in its ability to remain competitive. If there is a shift away from the use of technologies in which the Company is investing, its costs may not be fully recovered. In addition, the Company may be placed at a competitive disadvantage if other technologies in which the investment is not as great, or the Company's expertise is not as developed, emerge as the industry-leading technologies. This could have a material adverse effect on the Company's profitability and financial condition.

## **Competition with Low Cost Countries**

The competitive environment in the automotive industry has intensified as customers seek to take advantage of low wage costs in China, Korea, Thailand, India, Brazil and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost countries. The loss of any significant production contract to a competitor in low cost countries or significant costs and risks incurred to enter and carry on business in these countries could have an adverse effect on profitability.

## **The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets**

Many of the Company's customers have sought, and will likely continue to seek to take advantage of lower operating costs and/or other advantages in China, India, Brazil, Russia and other growing markets. While the Company continues to expand its manufacturing footprint with a view to taking advantage of manufacturing opportunities in some of these markets, the Company cannot guarantee that it will be able to fully realize such opportunities. The inability to quickly adjust its manufacturing footprint to take advantage of manufacturing opportunities in these markets could harm its ability to compete with other suppliers operating in or from such markets, which could have an adverse effect on its profitability.

## **Risks of conducting business in foreign countries, including China, Brazil and other growing markets**

The Company has or may establish foreign manufacturing, assembly, product development, engineering and research and development operations in foreign countries, including in Europe, China and Brazil. International operations are subject to certain risks inherent in doing business abroad, including:

- political and economic instability;
- corruption risks;
- trade, customs and tax risks;
- currency exchange rates and currency controls;
- limitations on the repatriation of funds;
- insufficient infrastructure;
- restrictions on exports, imports and foreign investment;
- increases in working capital requirements related to long supply chains; and
- difficulty in protecting intellectual property rights.

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability.

## **Potential Tax Exposures**

The Company may incur losses in some countries which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax exposures arising out of changes in tax laws, tax reassessments or otherwise. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain value added tax credits claimed. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 21 to the Company's consolidated financial statements for the year ended December 31, 2015). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability.

Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as its ability to fully benefit from tax losses

The Company's effective tax rate varies in each country in which it conducts business. Changes in its mix of earnings between jurisdictions with lower tax rates and those with higher tax rates could have a material adverse effect on the Company's profitability.

## **Pension Plans and other post employment benefits**

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2015, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2015, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund some amounts in 2016 and beyond. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's annual consolidated financial statements for the year ended December 31, 2015, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2015.

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2015, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2016 and beyond are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post-employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post-employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 12 ("Pension and Other Post Retirement Benefits") to the Company's annual consolidated financial statements for the year ended December 31, 2015, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2015.

## **Impairment Charges**

The Company may take, in the future, significant impairment charges, including charges related to long-lived assets. The early termination, loss, renegotiation of the terms of, or delay in the implementation of, any significant production contract could be indicators of impairment. In addition, to the extent that forward-looking assumptions regarding: the impact of turnaround plans on underperforming operations; new business opportunities; program price and cost assumptions on current and future business; the timing and success of new program launches; and forecast production volumes, are not met, any resulting impairment loss could have a material adverse effect on the Company's profitability.

## **Cybersecurity Threats**

The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks. A significant breach of the Company's IT systems could: cause disruptions in the Company's manufacturing operations, lead to the loss, destruction or inappropriate use of sensitive data; or result in theft of the Company's or its customers' intellectual property or confidential information. If any of the foregoing events occurs, the Company may be subject to a number of consequences, including reputational damage, which could have a material adverse effect on the Company.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 3, 2016, the Company had 86,384,667 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 3, 2016, options to acquire 4,330,617 common shares were outstanding.

## **CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING**

At December 31, 2015, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total
Purchase obligations (i)	\$481,448	\$0	\$0	\$0	\$0	\$0	\$481,448
Long-term debt	\$43,399	\$30,654	\$596,121	\$3,784	\$2,842	\$40,212	\$717,012
Rent Commitments	\$18,870	\$17,097	\$14,838	\$13,535	\$11,302	\$49,876	\$125,518
Operating leases with third parties	\$5,444	\$3,835	\$2,307	\$1,619	\$1,471	\$538	\$15,214
Pension funding & post-employment benefit payments	\$3,087	\$0	\$0	\$0	\$0	\$0	\$3,087
Total contractual obligations	\$552,248	\$51,586	\$613,266	\$18,938	\$15,615	\$90,626	\$1,342,279

(i) Purchase obligations consist of those related to inventory, services, tooling and fixed assets in the ordinary course of business.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2015, the amount of the off balance sheet program financing was \$85.5 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

### **Financial Instruments**

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

At December 31, 2015, the Company had committed to trade U.S. dollars in exchange for the following:

Currency	Amount of U.S. dollars \$	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Euro	13,867	0.9158	1
Buy Mexican Peso	1,745	17.1900	1
Buy Japanese Yen	5	120.3500	1

The aggregate value of these forward contracts as at December 31, 2015 was a loss of \$134 and was recorded in trade and other payables (December 31, 2014 - loss of \$9 recorded in trade and other payables).

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of December 31, 2015, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway

Commission (“COSO”) by and under the supervision of the Company’s management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company’s management team used COSO to design the Company’s internal controls over financial reporting.

The CEO and CFO have caused an evaluation of the effectiveness of the Company’s internal controls over financial reporting as of December 31, 2015. This evaluation included documentation activities, management inquiries and other reviews as deemed appropriate by management in consideration of the size and nature of the Company’s business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2015 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity’s objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization’s disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

The Company has and will continue to implement enhancements to its internal controls. The Company is committed to the highest standards of integrity and diligence in its business dealings and to the ethical and legally compliant business conduct of its employees. The Company reviews its compliance programs on a regular basis to assess and align them with emerging trends and business practices.

#### **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in the Company’s internal controls over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company’s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The discussion below describes the Company’s significant policies and procedures.

The Company’s management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions. In making and evaluating its estimates, management also considers economic conditions generally and in the automotive industry in particular, which have more recently been very different from historical patterns, as well as industry trends and the risks and uncertainties involved in its business that could materially affect the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. See “Automotive Industry Highlights and Trends” in the Company’s Annual Information Form and “Risks and Uncertainties” above.

Management believes that the accounting estimates discussed below are critical to the Company’s business operations and an understanding of its results of operations or may involve additional management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

## Revenue Recognition on Separately Priced Tooling Contracts

Revenue from tooling contracts is recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold. This generally corresponds to when the tool is inspected and accepted by the Customer, which is typically defined as the PPAP (production part approval process or customer acceptance) date. Under tooling contracts, the related sale could be paid in full upon completion of the contract, or in installments.

Revenue and cost of sales from tooling contracts are presented on a gross basis in the consolidated statements of operations.

Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

## Intangible Assets

The Company's intangible assets are comprised of customer contracts and relationships acquired in acquisitions and development costs.

Customer contracts and relationships are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a basis consistent with the contract value initially established upon acquisition.

Development costs are capitalized when the Company can demonstrate:

- that it has the intention and the technical and financial resources to complete the development;
- that the intangible asset will generate future economic benefits; and
- that the cost of the intangible asset can be measured reliably.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the statements of operations.

Research costs, including costs of market research and new product prototyping during the marketing stage, are expensed in the period in which they are incurred.

## Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGUs").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the other assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; and (ii) any resulting impairment loss could have a material impact on consolidated net income and on the amount of assets reported on the Company's consolidated balance sheet.

### **Income Tax Estimates**

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company is required to estimate the tax basis of assets and liabilities. The assessment for the recognition of a deferred tax asset requires significant judgement. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

At December 31, 2015, the Company had recorded a net deferred income tax asset in respect of pensions and other post-retirement benefits, loss carry-forwards and other temporary differences of \$67.7 million. Deferred tax assets in respect of loss carry-forwards relate to legal entities in Canada, the United States, Mexico and Europe. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The factors used to assess the probability of realization are the Company's forecast of future taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred tax assets in order to avoid the potential loss of benefits.

### **Employee Future Benefits**

The Company provides pensions and other post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in Note 12 to the Company's annual consolidated financial statements for the year ended December 31, 2015 the most significant of which are the discount rate, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses which are recognized in other comprehensive income as they arise. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

### **Recently issued accounting standards not yet adopted**

The IASB issued the following new standards and amendments to existing standards, which have not yet been adopted by the Company:

*IFRS 15, Revenue from Contracts with Customer (IFRS 15)* – In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of

the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2017.

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

*Amendments to IFRS 11, Joint Arrangements* – In May 2014, the IASB issued an amendment to this standard requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendment is effective for annual periods beginning on or after January 1, 2016.

*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. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted.

The Company is assessing the impact, if any, of these standards and amendments on the consolidated financial statements.

### **Selected Annual Information**

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

<b><i>Fiscal Year Ended</i></b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Sales	\$ 3,866,771	\$ 3,598,645	\$ 3,221,881
Gross margin	402,232	347,892	324,036
Net income	107,173	89,416	37,929
Net income attributable to equity holders of the Company	107,030	71,304	16,950
Adjusted net income attributable to equity holders of the Company	118,788	83,386	82,442
Net Earnings per Share			
Basic	1.25	0.84	0.20
Diluted	1.24	0.83	0.20
Adjusted Net Earnings per Share			
Basic	1.38	0.99	0.98
Diluted	1.38	0.98	0.97
Total assets	\$ 2,463,928	\$ 2,114,895	\$ 1,924,831
Total interest bearing debt	\$ 717,012	\$ 692,442	\$ 471,777
Dividends declared	\$ 10,336	\$ 10,159	\$ 7,588

The year-over-year trends in the selected information above have been discussed previously in this MD&A, including the unusual items in Table B under "Adjustments to Net Income".

## **OUTLOOK**

The automotive industry is traditionally an extremely challenging business, characterized at the OEM level by intense competition for market share, rebates to consumers and drives for quality and profits and characterized at the supplier level by price reductions, increasing quality standards, higher input prices and a declining number of qualified suppliers in the normal course or as a result of insolvencies and consolidation. The challenges of the industry were exacerbated by the 2008-2009 economic recession and the financial distress in the industry involving both OEMs and suppliers particularly evidenced by the bankruptcy filings of Chrysler and General Motors in the United States in 2009. The Company believes that the long term outlook of the automotive industry overall, while always challenging, is much improved from 2008 - 2010. In 2010, the North American automotive industry experienced a recovery in volume and revenues, as sales and production volumes increased from 2009 levels, although not to pre-recession levels. Production in 2011 through 2015 improved substantially. This has resulted in increasing revenues for most automotive OEMs and for suppliers who survived the automotive crisis of 2008 and 2009, including Martinrea.

There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium and longer term. It is expected that growth in business for individual suppliers will occur as OEMs reduce the number of Tier 1 suppliers, continue to outsource product, and provide opportunities for new work and takeover business. The Company believes that its capabilities provide it with the ability to capitalize on a broad range of opportunities. The Company has built its footprint and continues to pursue its strategies, including the recent acquisition of the assets of Martinrea Honsel to broaden its product offerings and customer base, and will continue to do so in the future with a view to increasing revenue and profits over the longer term.

## **FORWARD-LOOKING INFORMATION**

### **Special Note Regarding Forward-Looking Statements**

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the Company's expectations as to revenue, gross margin percentage, earnings per share, positive cash flow, debt levels and other financial metrics, views on automotive industry volumes in North America and other markets, the growth of the Company and pursuit of its strategies, the ramping up and launching of new programs, the increase in volume of customer programs after shutdown due to tooling or other issues, investments in its business, continued consolidation of automotive suppliers and opportunity for growth of individual suppliers, the opportunity to increase sales, the future amount and type of restructuring expenses to be expensed, the continuous management and monitoring of SG&A expenses, the financing of future capital expenditures, likelihood of tooling and component part supplier default, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity and capital resources to cover anticipated working capital needs and ability to deal with present economic conditions, the payment of dividends, statements on evaluating internal controls and critical accounting estimates 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, 2015 and other public filings which can be found at [www.sedar.com](http://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 in-sourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;

- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation 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; and
- Cybersecurity threats.

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



**MARTINREA INTERNATIONAL INC.  
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

# Martinrea International Inc.

## Table of Contents

---

	<b>Page</b>
Management's responsibility for financial reporting	1
Independent auditors' report	2
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	
1. Basis of preparation	8
2. Significant accounting policies	9
3. Changes in ownership interest	16
4. Trade and other receivables	17
5. Inventories	17
6. Sale of assets and liabilities held for sale	17
7. Property, plant and equipment	18
8. Intangible assets	18
9. Trade and other payables	19
10. Provisions	19
11. Long-term debt	20
12. Pensions and other post-retirement benefits	21
13. Income taxes	24
14. Capital stock	26
15. Earnings per share	27
16. Research and development costs	28
17. Personnel expenses	28
18. Finance expense and other finance income	28
19. Operating segments	28
20. Financial instruments	29
21. Commitments and contingencies	33
22. Guarantees	34
23. Transactions with key management personnel	34
24. List of consolidated entities	34

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management's judgment. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2015 is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, for overseeing management's performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, at least once a year to review among other things accounting policies, observations, if any, relating to internal controls over the financial reporting process that may be identified during the audit process, as influenced by the nature, timing and extent of audit procedures performed, annual financial statements, the results of the external audit examination and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2015. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) "*Pat D'Eramo*"

(Signed) "*Fred Di Tosto*"

Pat D'Eramo

Fred Di Tosto

President & Chief Executive Officer

Chief Financial Officer



**KPMG LLP**  
**Chartered Public Accountants**  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto Ontario M5H 2S5

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Martinrea International Inc.

We have audited the accompanying consolidated financial statements of Martinrea International Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Martinrea International Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants  
March 3, 2016  
Toronto, Canada

# Martinrea International Inc.

## Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note	December 31, 2015	December 31, 2014
<b>ASSETS</b>			
Cash and cash equivalents		\$ 28,899	\$ 52,401
Trade and other receivables	4	586,024	520,844
Inventories	5	356,969	313,436
Prepaid expenses and deposits		13,651	10,039
Income taxes recoverable		10,401	8,321
<b>TOTAL CURRENT ASSETS</b>		<b>995,944</b>	<b>905,041</b>
Property, plant and equipment	7	1,202,162	984,681
Deferred income tax assets	13	182,232	153,367
Intangible assets	8	83,590	71,806
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,467,984</b>	<b>1,209,854</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,463,928</b>	<b>\$ 2,114,895</b>
<b>LIABILITIES</b>			
Trade and other payables	9	\$ 743,096	\$ 645,862
Provisions	10	15,598	5,504
Income taxes payable		29,873	31,140
Current portion of long-term debt	11	43,399	37,526
<b>TOTAL CURRENT LIABILITIES</b>		<b>831,966</b>	<b>720,032</b>
Long-term debt	11	673,613	654,916
Pension and other post-retirement benefits	12	67,552	62,557
Deferred income tax liabilities	13	114,571	101,644
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>855,736</b>	<b>819,117</b>
<b>TOTAL LIABILITIES</b>		<b>1,687,702</b>	<b>1,539,149</b>
<b>EQUITY</b>			
Capital stock	14	709,396	694,198
Contributed surplus		42,648	45,347
Accumulated other comprehensive income		147,442	55,927
Accumulated deficit		(123,157)	(219,480)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>776,329</b>	<b>575,992</b>
Non-controlling interest		(103)	(246)
<b>TOTAL EQUITY</b>		<b>776,226</b>	<b>575,746</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,463,928</b>	<b>\$ 2,114,895</b>

### Commitment and Contingencies (notes 10, 11, and 21)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

# Martinrea International Inc.

## Consolidated Statements of Operations

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

	Note	Year ended December 31, 2015	Year ended December 31, 2014
<b>SALES</b>		\$ 3,866,771	\$ 3,598,645
Cost of sales (excluding depreciation of property, plant and equipment)		(3,347,152)	(3,146,756)
Depreciation of property, plant and equipment (production)		(117,387)	(103,997)
Total cost of sales		(3,464,539)	(3,250,753)
<b>GROSS MARGIN</b>		402,232	347,892
Research and development costs	16	(21,765)	(18,359)
Selling, general and administrative		(193,610)	(184,499)
Depreciation of property, plant and equipment (non-production)		(7,485)	(6,786)
Amortization of customer contracts and relationships		(2,134)	(2,485)
Restructuring costs	10	(15,337)	(3,542)
Loss on sale of assets and liabilities held for sale	6	(370)	-
Gain/(loss) on disposal of property, plant and equipment		230	(321)
<b>OPERATING INCOME</b>		161,761	131,900
Finance costs	18	(25,266)	(22,798)
Other finance income	18	4,925	2,137
<b>INCOME BEFORE INCOME TAXES</b>		141,420	111,239
Income tax expense	13	(34,247)	(21,823)
<b>NET INCOME FOR THE PERIOD</b>		\$ 107,173	\$ 89,416
Non-controlling interest	3	(143)	(18,112)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 107,030	\$ 71,304
Basic earnings per share	15	\$ 1.25	\$ 0.84
Diluted earnings per share	15	\$ 1.24	\$ 0.83

See accompanying notes to the consolidated financial statements.

**Martinrea International Inc.**  
**Consolidated Statements of Comprehensive Income**  
*(in thousands of Canadian dollars)*

	Year ended December 31, 2015	Year ended December 31, 2014
<b>NET INCOME FOR THE PERIOD</b>	\$ 107,173	\$ 89,416
<b>Other comprehensive income, net of tax:</b>		
<b>Items that may be reclassified to net income</b>		
Foreign currency translation differences for foreign operations	91,515	30,240
<b>Items that will not be reclassified to net income</b>		
Actuarial losses from the remeasurement of defined benefit plans	(371)	(11,051)
<b>Other comprehensive income, net of tax</b>	91,144	19,189
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 198,317	\$ 108,605
<b>Attributable to:</b>		
Equity holders of the Company	198,174	90,095
Non-controlling interest	143	18,510
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 198,317	\$ 108,605

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	<b>Equity attributable to equity holders of the Company</b>							
	Capital stock	Contributed surplus	Other equity	Cumulative translation account	Accumulated deficit	Total	Non- controlling interest	Total equity
Balance at December 31, 2013	\$ 689,975	\$ 44,853	\$ (154,239)	\$ 26,085	\$ (142,376)	\$ 464,298	\$ 89,713	\$ 554,011
Net income for the period	-	-	-	-	71,304	71,304	18,112	89,416
Compensation expense related to stock options	-	1,699	-	-	-	1,699	-	1,699
Change in fair value of put option granted to non-controlling interest	-	-	(81,428)	-	-	(81,428)	-	(81,428)
Purchase of non-controlling interest (note 3)	-	-	235,667	-	(127,198)	108,469	(108,469)	-
Dividends (\$0.12 per share)	-	-	-	-	(10,159)	(10,159)	-	(10,159)
Exercise of employee stock options	4,223	(1,205)	-	-	-	3,018	-	3,018
<u>Other comprehensive income, net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(11,051)	(11,051)	-	(11,051)
Foreign currency translation differences	-	-	-	29,842	-	29,842	398	30,240
Balance at December 31, 2014	694,198	45,347	-	55,927	(219,480)	575,992	(246)	575,746
Net income for the period	-	-	-	-	107,030	107,030	143	107,173
Compensation expense related to stock options	-	1,384	-	-	-	1,384	-	1,384
Dividends (\$0.12 per share)	-	-	-	-	(10,336)	(10,336)	-	(10,336)
Exercise of employee stock options	15,198	(4,083)	-	-	-	11,115	-	11,115
<u>Other comprehensive income, net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(371)	(371)	-	(371)
Foreign currency translation differences	-	-	-	91,515	-	91,515	-	91,515
Balance at December 31, 2015	\$ 709,396	\$ 42,648	\$ -	\$ 147,442	\$ (123,157)	\$ 776,329	\$ (103)	\$ 776,226

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 31, 2015	Year ended December 31, 2014
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES:</b>		
Net Income for the period	\$ 107,173	\$ 89,416
Adjustments for:		
Depreciation of property, plant and equipment	124,872	110,783
Amortization of customer contracts and relationships	2,134	2,485
Amortization of development costs	12,104	9,033
Unrealized losses on foreign exchange forward contracts	134	9
Finance costs	25,266	22,798
Income tax expense	34,247	21,823
Loss on sale of assets and liabilities held for sale (note 6)	370	-
(Gain)/loss on disposal of property, plant and equipment	(230)	321
Stock-based compensation	1,384	1,699
Pension and other post-retirement benefits expense	4,264	4,068
Contributions made to pension and other post-retirement benefits	(4,207)	(3,898)
	307,511	258,537
Changes in non-cash working capital items:		
Trade and other receivables	(9,883)	42,962
Inventories	(15,395)	1,374
Prepaid expenses and deposits	(2,488)	3,542
Trade, other payables and provisions	(10,869)	18,083
	268,876	324,498
Interest paid (excluding capitalized interest)	(24,259)	(21,429)
Income taxes paid	(51,990)	(38,715)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 192,627</b>	<b>\$ 264,354</b>
<b>FINANCING ACTIVITIES:</b>		
Increase in long-term debt	51,271	297,077
Repayment of long-term debt	(98,911)	(100,908)
Dividends paid	(10,293)	(10,145)
Exercise of employee stock options	11,115	3,018
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (46,818)</b>	<b>\$ 189,042</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment*	(179,578)	(203,645)
Capitalized development costs	(15,193)	(20,476)
Proceeds on sale of assets and liabilities held for sale (note 6)	20,638	-
Proceeds on disposal of property, plant and equipment	2,677	1,647
Purchase of non-controlling interest (note 3)	-	(235,667)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (171,456)</b>	<b>\$ (458,141)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	2,145	922
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(23,502)</b>	<b>(3,823)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>52,401</b>	<b>56,224</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 28,899</b>	<b>\$ 52,401</b>

\* As at December 31, 2015, \$49,013 (December 31, 2014, \$13,372) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

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

### 1. BASIS OF PREPARATION

#### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended December 31, 2015 were approved by the Board of Directors on March 3, 2016.

#### (b) Functional and presentation currency

These 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.

#### (c) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Estimating the economic life of property, plant and equipment and intangible assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations, for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately priced tooling contracts: Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

- Estimates used in the fair valuing of stock option grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options.

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgements made are disclosed in individual notes throughout the financial statements where relevant):

- Accounting for provisions including assessments of possible legal and tax contingencies, restructuring and onerous contracts. Whether a present obligation is probable or not requires judgement. The nature and type of risks for these provisions differ and judgement is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.
- Accounting for development costs – judgement is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit.
- Acquisitions – at initial recognition and subsequent remeasurement, judgements are made both for key assumptions in the purchase price allocation for each acquisition and regarding impairment indicators in the subsequent period. The purchase price is assigned to the identifiable assets, liabilities, and contingent liabilities based on fair values for those assets. Any remaining excess value is reported as goodwill. This allocation requires judgement as well as the definition of cash generating units for impairment testing purposes. Other judgements might result in significantly different results and financial position in the future.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

#### (ii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

#### (iii) Business combinations

For every business combination, the Company identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

#### *Non-controlling interest:*

The Company measures, on a transaction-by-transaction basis, any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the identifiable assets and liabilities of the acquiree.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

### *Measuring goodwill:*

In a business combination, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair values of the assets transferred, including cash, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes contingent consideration and share-based payment awards exchanged in the business combination. Payments that effectively settle pre-existing relationships between the Company and the acquiree, payments to compensate employees or former owners for future services, and a reimbursement of transaction costs incurred by the acquiree on behalf of the Company are not accounted for as part of the business combination.

Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are excluded from acquisition accounting, and are expensed as incurred.

### *Contingent liabilities:*

Contingent liabilities that are present obligations that arose from past events are recognized at fair value at the acquisition date. Future changes in acquisition date contingent liabilities are recorded in earnings.

### *Put option held by non-controlling shareholder:*

The Company recognizes a liability measured at fair value for a written-put option when a non-controlling shareholder has the right to require the Company to acquire its shareholdings. Based on the facts and circumstances of each put option, the liability will either replace the non-controlling interest balance or be recorded with an offset to other equity. Fair value is measured as the present value of the exercise price of the option or of the forward price. Subsequent changes in the carrying amount of the liability, including accretion and foreign exchange, are recognized within other equity.

## **(b) Foreign currency**

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

### **(i) Foreign currency transactions**

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

### **(ii) Translation of financial statements of foreign operations**

The assets and liabilities of subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate prevailing on the date of transaction.

Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

## **(c) Financial instruments**

### **(i) Non-derivative financial assets**

The Company initially recognizes loans and receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

*Financial assets at fair value through profit or loss:*

Financial assets are designated at fair value through profit or loss if the Company manages such asset and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss consist of cash and cash equivalents.

Cash and cash equivalents comprise cash balances and highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Loans and receivables:*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of trade and other receivables.

**(ii) Non-derivative financial liabilities**

The Company has the following non-derivative financial liabilities: long term debt and trade and other payables.

The Company initially recognizes debt and subordinated liabilities at fair value on the date that they are originated plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Trade and other payables are recognized initially on the trade date at which time the Company becomes a party to the contractual provisions of the instrument and subsequently at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

**(iii) Derivative financial instruments**

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value being recognized immediately in profit or loss. The Company does not currently apply hedge accounting.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Certain tooling is produced or purchased specifically for the purpose of manufacturing parts for customer orders, which are either a) not sold to the customer, or b) paid for by the customer on delivery of each part, without the customer guaranteeing full financing of the costs incurred. In accordance with IAS 16, this tooling is recognized as property, plant and equipment. It is depreciated to match the lesser of estimated useful life and life of the program.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

### (ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

### (iii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is provided for at the following basis and rates:

	<b>Basis</b>	<b>Rate</b>
Buildings	Declining balance	4%
Leasehold improvements	Straight line	Lesser of estimated useful life and lease term
Manufacturing equipment	Declining balance and straight line	7% to 20%
Tooling and fixtures	Straight line	Lesser of estimated useful life and life of program
Other	Declining balance and straight line	20% to 30%

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

### (e) Intangible assets

The Company's intangible assets are composed of customer contracts acquired in previous acquisitions and development costs.

#### (i) Customer contracts and relationships:

Customer contracts and relationships have a finite useful life and are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a basis consistent with the contract value initially established upon acquisition.

#### (ii) Research and development:

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if:

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

- the development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- the future economic benefits are probable, and
- the Company intends to and has sufficient resources to complete the development and to use or sell the asset.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the statements of operations.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

### (f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of the net realizable value.

### (g) Impairment

#### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

#### (ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (h) Pensions and other post-retirement benefits

The Company's liability for pensions and other post-retirement benefits is based on valuations performed by independent actuaries using the projected unit credit method. These valuations incorporate both financial assumptions (discount rate, and changes in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The liability for pensions and other post-retirement benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in accumulated deficit through other comprehensive income.

### (i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

A provision for onerous contracts is recognized when the unavoidable costs to meet an obligation exceeds the future economic benefits expected to be earned under the contract. Provisions for onerous contracts are reversed over time as the contracts are fulfilled or when the contracts are no longer onerous.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time is recognized through profit and loss in other finance income.

### (j) Revenue recognition

Sales primarily include sales of finished goods and tooling revenues. Sales of finished goods and tooling revenues are recognized at the date on which the Company transfers substantially all the risks and rewards of ownership to the buyer, retains neither continuing managerial involvement nor effective control over the goods sold, and meets other revenue recognition criteria in accordance with IFRS. This generally corresponds to when the goods are shipped or, in the case of the sale of tooling, when the tool has been inspected and accepted by the customer.

### (k) Finance income and finance expense

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense is comprised of interest expense on long-term debt, amortization of deferred financing costs, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

Foreign currency gains and losses are reported on a net basis.

### (l) **Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (m) **Guarantees**

The Company accounts for guarantees in accordance with IAS 39, *Financial Instruments, Recognition and Measurement* ("IAS 39"). A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Under IAS 39, guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are re-measured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets* and (ii) the amount initially recognized less cumulative amortization.

### (n) **Share-based payments**

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

### (o) **Earnings per share**

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

### (p) **Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

---

### (q) Recently adopted accounting standards

The Company has adopted the new and amended IFRS pronouncements listed below as at January 1, 2015, in accordance with the transitional provisions outlined in the respective standards.

*IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment*

Effective January 1, 2015, the Company adopted amendments made to IAS 38, *Intangible Assets* and IAS 16, *Property, Plant and Equipment*. The amendments to these standards introduced a rebuttable presumption that the use of revenue-based amortization methods is inappropriate.

The adoption of these amended standards did not have a significant impact on the consolidated financial statements in the current or comparative periods.

### (r) Recently issued accounting standards

The IASB issued the following new standards and amendments to existing standards:

*IFRS 15, Revenue from Contracts with Customer (IFRS 15)* – In May 2014, the IASB issued IFRS 15 which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018.

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

*Amendments to IFRS 11, Joint Arrangements (IFRS 11)* – In May 2014, the IASB issued an amendment to this standard requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendment is effective for annual periods beginning on or after January 1, 2016.

*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. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted.

The Company is assessing the impact of these standards, if any, on the consolidated financial statements.

### 3. CHANGES IN OWNERSHIP INTEREST

On July 29, 2011, the Company purchased a controlling interest in the assets of Honsel AG, a German-based leading supplier of aluminum components for the automotive and industrial sectors, forming the Martinrea Honsel Group. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction, acquiring 55%, with Anchorage acquiring the remaining 45%.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

As part of the transaction the Company granted Anchorage a put option which, if exercised, would have required the Company to purchase Anchorage's 45% interest in Martinrea Honsel. The put option would have become effective on April 1, 2015 with an expiry date of October 1, 2017. The put option provided a formula for determining the purchase price of the shares, designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provided an arbitration mechanism in the event that the two parties were unable to agree on the ultimate price.

On August 7, 2014, prior to the put option becoming exercisable, Martinrea acquired from Anchorage the remaining 45% equity interest in the Martinrea Honsel Group for a negotiated purchase price of €160,000 (\$235,667 Canadian). Effective August 7, 2014, the Martinrea Honsel Group became wholly owned by Martinrea. The transaction resulted in the carrying value of the put option liability on the date of the transaction being reversed out of other equity and the carrying amount of Anchorage's share of equity in Martinrea Honsel being reversed from non-controlling interest. The \$127,198 difference of the consideration paid and the carrying amount of the non-controlling interest at the date of the transaction was recognized in accumulated deficit.

#### 4. TRADE AND OTHER RECEIVABLES

	December 31, 2015	December 31, 2014
Trade receivables	\$ 567,704	\$ 501,962
VAT and other receivables	18,320	18,882
	\$ 586,024	\$ 520,844

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 20.

#### 5. INVENTORIES

	December 31, 2015	December 31, 2014
Raw materials	\$ 168,246	\$ 145,817
Work in progress	44,346	43,895
Finished goods	45,898	55,173
Tooling work in progress and other inventory	98,479	68,551
	\$ 356,969	\$ 313,436

#### 6. SALE OF ASSETS AND LIABILITIES HELD FOR SALE

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company determined was not core to the strategy of the overall business going forward. The agreement to sell the Soest facility was closed on August 31, 2015. The net assets of the facility were sold for proceeds of \$20,638 (€14,588) resulting in a pre-tax loss on sale of \$370 (€257).

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### 7. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 151,354	\$ (38,031)	\$ 113,323	\$ 135,782	\$ (30,365)	\$ 105,417
Leasehold improvements	54,861	(30,257)	24,604	44,756	(24,198)	20,558
Manufacturing equipment	1,552,322	(771,572)	780,750	1,252,106	(588,639)	663,467
Tooling and fixtures	39,286	(33,543)	5,743	35,977	(29,664)	6,313
Other assets	37,262	(19,326)	17,936	28,349	(14,525)	13,824
Construction in progress and spare parts	259,806	-	259,806	175,102	-	175,102
	\$ 2,094,891	\$ (892,729)	\$ 1,202,162	\$ 1,672,072	\$ (687,391)	\$ 984,681

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2013	\$ 99,865	\$ 20,134	\$ 593,480	\$ 5,333	\$ 13,650	\$ 115,086	\$ 847,548
Additions	1,436	156	3,957	-	321	197,931	203,801
Disposals	(828)	-	(697)	(284)	(84)	(75)	(1,968)
Depreciation	(4,142)	(3,290)	(96,511)	(3,343)	(3,497)	-	(110,783)
Transfers from construction in progress and spare parts	3,814	2,505	128,252	4,314	3,022	(141,907)	-
Foreign currency translation adjustment	5,272	1,053	34,986	293	412	4,067	46,083
Net as of December 31, 2014	\$ 105,417	\$ 20,558	\$ 663,467	\$ 6,313	\$ 13,824	\$ 175,102	\$ 984,681
Additions	-	563	5,837	-	1,019	207,800	215,219
Sale of assets held for sale (note 6)	(1,165)	-	(3,552)	(955)	(183)	-	(5,855)
Disposals	-	-	(1,604)	(157)	(29)	(657)	(2,447)
Depreciation	(3,782)	(3,894)	(111,482)	(2,120)	(3,594)	-	(124,872)
Transfers from construction in progress and spare parts	307	5,060	137,712	1,866	5,242	(150,187)	-
Foreign currency translation adjustment	12,546	2,317	90,372	796	1,657	27,748	135,436
Net as of December 31, 2015	\$ 113,323	\$ 24,604	\$ 780,750	\$ 5,743	\$ 17,936	\$ 259,806	\$ 1,202,162

The Company has entered into certain asset-backed financing arrangements that were structured as sale-and-leaseback transactions. At December 31, 2015, the carrying value of property, plant and equipment under such arrangements was \$32,834 (December 31, 2014 – \$35,736). The corresponding amounts owing are reflected within long-term debt (note 11).

### 8. INTANGIBLE ASSETS

	December 31, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 62,556	\$ (51,783)	\$ 10,773	\$ 60,644	\$ (48,848)	\$ 11,796
Development costs	129,906	(57,089)	72,817	97,261	(37,251)	60,010
	\$ 192,462	\$ (108,872)	\$ 83,590	\$ 157,905	\$ (86,099)	\$ 71,806

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net balance at December 31, 2013	\$ 13,988	\$ 45,652	\$ 59,640
Additions	-	20,476	20,476
Amortization	(2,485)	(9,033)	(11,518)
Foreign currency translation adjustment	293	2,915	3,208
Net balance at December 31, 2014	\$ 11,796	\$ 60,010	\$ 71,806
Additions	-	15,193	15,193
Amortization	(2,134)	(12,104)	(14,238)
Foreign currency translation adjustment	1,111	9,718	10,829
Net balance at December 31, 2015	\$ 10,773	\$ 72,817	\$ 83,590

### 9. TRADE AND OTHER PAYABLES

	December 31, 2015	December 31, 2014
Trade accounts payable and accrued liabilities	\$ 742,962	\$ 645,853
Foreign exchange forward contracts (note 20(d))	134	9
	\$ 743,096	\$ 645,862

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

### 10. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Onerous Contracts (c)	Total
Net as of December 31, 2013	\$ 3,348	\$ 1,707	\$ 1,307	\$ 6,362
Net additions	3,542	546	-	4,088
Amounts used during the period	(3,102)	(450)	(1,291)	(4,843)
Foreign currency translation adjustment	(36)	(51)	(16)	(103)
Net as of December 31, 2014	\$ 3,752	\$ 1,752	\$ -	\$ 5,504
Net additions	15,337	1,412	-	16,749
Amounts used during the period	(5,633)	(1,339)	-	(6,972)
Foreign currency translation adjustment	570	(253)	-	317
Net as of December 31, 2015	\$ 14,026	\$ 1,572	\$ -	\$ 15,598

Based on estimated cash outflows, all provisions as at December 31, 2015 and 2014 are presented on the consolidated balance sheet as current.

#### (a) Restructuring

As part of the acquisition of Honsel in 2011 as described in note 3, a certain level of restructuring was contemplated, in particular, at the Company's German facility in Meschede. The restructuring accrual as at December 31, 2013 and \$1,054 of the accrual as at December 31, 2014 relates to restructuring activities undertaken in Meschede primarily for employee related severance. Additional restructuring costs in Martinrea Honsel in the form of employee related severance of \$15,337 were incurred during 2015 (\$15,007 in Meschede, Germany and \$330 in Brazil).

Additions to the restructuring accrual in 2014 of \$3,542 represent employee related severance relating to the rightsizing of two manufacturing facilities in Ontario.

#### (b) Claims and litigation

In the normal course of business, the Company may be involved in disputes with its suppliers, former employees or other third parties. Where

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

### (c) Onerous contracts

An onerous contract is a contract in which the unavoidable costs to meet the obligation exceed the future economic benefits expected to be earned under it. As part of the valuation of the assets and liabilities assumed in the acquisition of Honsel, certain sales contracts were determined to be onerous. As such, the present value of the future net obligation of these contracts was recorded as a provision and has been reversed over time as the contracts were fulfilled or when the contracts were no longer considered onerous.

## 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 20.

	December 31, 2015	December 31, 2014
Banking facility	\$ 574,818	\$ 547,090
Equipment loans	142,194	145,109
Other bank loans	-	243
	717,012	692,442
Current portion	(43,399)	(37,526)
	\$ 673,613	\$ 654,916

Terms and conditions of outstanding loans as at December 31, 2015, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2015 Carrying amount	December 31, 2014 Carrying amount
Banking facility	USD	LIBOR+2.0%	2018	304,480	272,624
	CAD	BA+2.0%	2018	\$ 270,338	\$ 274,466
Equipment loans	USD	4.25%	2018	42,926	46,742
	EUR	2.54%	2025	15,537	-
	EUR	3.06%	2024	16,267	15,195
	EUR	4.93%	2023	15,509	14,735
	USD	4.25%	2017	14,100	18,846
	USD	7.36%	2017	12,319	14,948
	EUR	3.37%	2017	7,988	13,806
	EUR	3.35%	2019	5,419	5,615
	EUR	4.34%	2025	3,225	-
	USD	3.89%	2016	3,136	6,405
	USD	3.99%	2017	2,642	4,176
	USD	3.65%	2016	1,032	1,982
	EUR	1.36%	2021	902	-
	USD	4.69%	2017	619	1,013
	EUR	0.26%	2025	352	-
BRL	5.00%	2020	221	336	
BRL	11.88%	2015	-	1,310	
Other bank loans	BRL	14.00%	2015	-	243
				\$ 717,012	\$ 692,442

On August 6, 2014, the Company's banking facility was amended to increase the total available revolving credit lines under the facility and add two new banks to the lending syndicate. The increase in credit lines facilitated the purchase of the 45% minority interest in Martinrea Honsel as described in note 3. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

- available revolving credit lines of \$300 million and US \$350 million;
- available asset-backed financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$100 million;
- pricing terms at market rates; and
- a maturity date of August 2018.

As at December 31, 2015, the Company has drawn US\$220,000 (December 31, 2014 - US\$235,000) on the U.S. revolving credit line and drawn \$273,000 (December 31, 2014 - \$278,000) on the Canadian revolving credit line. At December 31, 2015, the weighted average effective rate of the banking facility credit lines was 2.9% (December 31, 2014 - 3.3%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2015.

Deferred financing fees of \$2,994 (December 31, 2014 - \$4,155) have been netted against the carrying amount of the long term debt.

During 2015, the Company finalized the following equipment financing arrangements with the corresponding equipment acting as security:

- a ten year equipment loan in the amount of € 10,338 (\$15,537) at a fixed interest rate of 2.54% with scheduled repayments starting in 2019;
- a ten year equipment loan in the amount of € 2,146 (\$3,225) at a fixed interest rate of 4.34% with scheduled repayments starting in 2019;
- a five year equipment loan in the amount of € 600 (\$902) at a fixed interest rate of 1.36% with scheduled repayments starting in 2017; and
- a five year equipment loan in the amount of € 234 (\$352) at a fixed interest rate of 0.26% with scheduled repayments starting in 2018.

Future annual minimum principal repayments are as follows:

Within one year	\$	43,399
One to two years		30,654
Two to three years		596,121
Three to four years		3,784
Thereafter		43,054
	\$	717,012

## 12. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company has defined benefit and non-pension post-retirement benefit plans in Canada, the United States and Germany. The defined benefit plans provide pensions based on years of service, years of contributions and earnings. The post-retirement benefit plans provide for the reimbursement of certain medical costs.

The plans are governed by the pension laws of the jurisdiction in which they are registered. The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. Local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

The assets of the defined benefit pension plans are held in segregated accounts isolated from the Company's assets. The plans are administered pursuant to applicable regulations, investment policies and procedures and to the mandate of an established pension committee. The pension committee oversees the administration of the pension plans, which include the following principal areas:

- Overseeing the funding, administration, communication and investment management of the plans;
- Selecting and monitoring the performance of all third parties performing duties in respect of the plans, including audit, actuarial and investment management services;
- Proposing, considering and approving amendments to the defined benefit pension plans;
- Proposing, considering and approving amendments of the investment policies and procedures;
- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

The assets of the defined benefit pension plans are invested and managed following all applicable regulations and investment policies and procedures, and reflect the characteristics and asset mix of each defined benefit pension plan. Investment and market return risk is managed by:

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;
- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

The pension plans are exposed to market risks such as changes in interest rates, inflation and fluctuations in investment values. The plans are also exposed to non-financial risks in the nature of membership mortality, demographic changes and regulatory change.

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

### Accrued benefit obligation:

	Other post-retirement benefits		December 31, 2015		Other post-retirement benefits		December 31, 2014					
		Pensions				Pensions						
Balance, beginning of the year	\$	(49,367)	\$	(58,560)	\$	(107,927)	\$	(41,804)	\$	(47,217)	\$	(89,021)
Benefits paid by the plan		1,886		1,903		3,789		1,671		2,541		4,212
Current service costs		(168)		(1,926)		(2,094)		(181)		(2,182)		(2,363)
Interest costs		(1,960)		(2,276)		(4,236)		(1,949)		(2,177)		(4,126)
Actuarial gains/(losses) - experience		(118)		289		171		1,158		1,260		2,418
Actuarial gains/(losses) - demographic experience		460		542		1,002		(2,136)		(1,618)		(3,754)
Actuarial gains/(losses) - financial assumptions		4,500		1,600		6,100		(5,056)		(7,646)		(12,702)
Transfers		-		(2)		(2)		-		(431)		(431)
Curtailment		-		-		-		547		-		547
Settlements		253		581		834		-		419		419
Foreign exchange translation adjustment		(4,230)		(5,204)		(9,434)		(1,617)		(1,509)		(3,126)
Balance, end of year	\$	(48,744)	\$	(63,053)	\$	(111,797)	\$	(49,367)	\$	(58,560)	\$	(107,927)

### Plan Assets:

	Other post-retirement benefits		December 31, 2015		Other post-retirement benefits		December 31, 2014					
		Pensions				Pensions						
Fair value, beginning of the year	\$	-	\$	45,370	\$	45,370	\$	-	\$	43,751	\$	43,751
Contributions paid into the plans		1,886		2,321		4,207		1,671		2,227		3,898
Benefits paid by the plans		(1,886)		(1,903)		(3,789)		(1,671)		(2,541)		(4,212)
Transfers		-		2		2		-		429		429
Settlements		-		-		-		-		(452)		(452)
Interest income		-		1,869		1,869		-		2,106		2,106
Administrative costs		-		(56)		(56)		-		(199)		(199)
Remeasurements, return on plan assets recognized in other comprehensive income		-		(6,776)		(6,776)		-		(1,385)		(1,385)
Foreign exchange translation adjustment		-		3,418		3,418		-		1,434		1,434
Fair value, end of year	\$	-	\$	44,245	\$	44,245	\$	-	\$	45,370	\$	45,370
<b>Accrued benefit liability, end of year</b>		<b>(48,744)</b>		<b>(18,808)</b>		<b>(67,552)</b>		<b>(49,367)</b>		<b>(13,190)</b>		<b>(62,557)</b>

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Pension benefit expense recognized in net income:

	Other post-retirement benefits		Year ended December 31, 2015		Other post-retirement benefits		Year ended December 31, 2014	
		Pensions				Pensions		
Current service costs	\$ 168	\$ 1,926	\$ 2,094	\$ 181	\$ 2,182	\$ 2,363		
Net interest cost	1,960	407	2,367	1,949	71	2,020		
Administrative costs	-	56	56	-	199	199		
Curtailement/Settlements*	(253)	-	(253)	(547)	33	(514)		
Net benefit plan expense	\$ 1,875	\$ 2,389	\$ 4,264	\$ 1,583	\$ 2,485	\$ 4,068		

\*As described in note 6, certain assets and liabilities of the Company's operating facility in Soest, Germany were sold in the third quarter of 2015. As part of that sale, the pension liability associated with the Soest facility was also transferred to the buyer resulting in a settlement gain of \$581 which has been recorded as part of the loss on sale of assets and liabilities held for sale.

Amounts recognized in other comprehensive income(loss) (before income taxes):

	Year ended December 31, 2015	Year ended December 31, 2014
Actuarial gains/(losses)	\$ 497	\$ (15,423)

Plan assets are primarily composed of pooled funds that invest in fixed income and equities, common stocks and bonds that are actively traded. Plan assets are composed of:

Description	December 31, 2015	December 31, 2014
Cash	0.0%	0.9%
Equity	85.7%	87.4%
Debt securities	14.3%	11.7%
	100.0%	100.0%

The defined benefit obligation and plan assets are composed by country as follows:

	Year ended December 31, 2015				Year ended December 31, 2014			
	Canada	USA	Germany	Total	Canada	USA	Germany	Total
Present value of funded obligations	\$ (26,520)	\$ (29,138)	\$ -	\$ (55,658)	\$ (25,568)	\$ (25,891)	\$ -	\$ (51,459)
Fair value of plan assets	23,085	21,160	-	44,245	27,693	17,677	-	45,370
Funding status of funded obligations	(3,435)	(7,978)	-	(11,413)	2,125	(8,214)	-	(6,089)
Present value of unfunded obligations	(26,867)	(23,775)	(5,497)	(56,139)	(26,907)	(24,379)	(5,182)	(56,468)
Total funded status of obligations	\$ (30,302)	\$ (31,753)	\$ (5,497)	\$ (67,552)	\$ (24,782)	\$ (32,593)	\$ (5,182)	\$ (62,557)

There are significant assumptions made in the calculations provided by the actuaries and it is the responsibility of the Company to determine which assumptions could result in a significant impact when determining the accrued benefit obligations and pension expense.

Principal actuarial assumptions, expressed as weighted averages, are summarized below:

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### Weighted average actuarial assumptions:

	December 31, 2015	December 31, 2014
Defined benefit pension plans		
Discount rate used to calculate year end benefit obligation	3.9%	3.8%
Mortality table	CPM - RPP 2014 Priv	CPM - RPP 2014 Priv
Other post-employment benefit plans		
Discount rate used to calculate year end benefit obligation	4.0%	3.9%
Mortality table	CPM - RPP 2014 Priv & Blue collar w/MP	CPM - RPP 2014 Priv & Blue collar w/MP
Health care trend rates		
Initial healthcare rate	7.0%	8.5%
Ultimate healthcare rate	4.8%	5.0%

### Sensitivity of Key Assumptions

In the sensitivity analysis shown below, the Company determines the defined benefit obligation using the same method used to calculate the defined benefit obligations recognized in the consolidated balance sheets. Sensitivity is calculated by changing one assumption while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption will change at a time, and that some assumptions are correlated.

	Impact on defined benefit obligation			Impact on defined benefit obligation	
		December 31, 2015		December 31, 2014	
	Change in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>Pension Plans</b>					
Discount rate	0.50%	Decrease by 7.6%	Increase by 8.6%	Decrease by 7.9%	Increase by 9.0%
Life Expectancy	1 Year	Increase by 3.01%	Decrease by 3.02%	Increase by 2.88%	Decrease by 2.98%
<b>Other post-retirement benefits</b>					
Discount rate	0.50%	Decrease by 6.4%	Increase by 7.2%	Decrease by 7.03%	Increase by 7.9%
Medical costs	1 Year	Increase by 11.7%	Decrease by 9.7%	Increase by 13.2%	Decrease by 10.7%

### 13. INCOME TAXES

The components of income tax expense are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Current income tax expense	\$ 43,246	\$ 43,049
Deferred income tax expense (recovery)	(8,999)	(21,226)
Total income tax expense	\$ 34,247	\$ 21,823

Taxes on items recognized in other comprehensive income or directly in equity in 2015 and 2014 were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Deferred tax benefit (charge) on:		
Employee benefit plan actuarial gains and losses	\$ (868)	\$ 4,372
Cumulative Translation Adjustments	(1,456)	(2,420)
	\$ (2,324)	\$ 1,952

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### Reconciliation of effective tax rate:

The provision for income taxes differs from the result that would be obtained by applying statutory income tax rates to income before income taxes. This difference results from the following:

	Year ended December 31, 2015	Year ended December 31, 2014
Income before income taxes	\$ 141,420	\$ 111,239
Tax at Statutory income tax rate of 26.50% (2014 - 26.50%)	37,476	29,478
Increase (decrease) in income taxes resulting from:		
Manufacturing and processing profits deduction	(1,346)	(866)
Tax audit settlements and changes in estimates related to prior years	5,748	963
Revaluation of deferred taxes due to foreign exchange and inflation	6,292	(1,289)
Rate differences and deductions allowed in foreign jurisdictions	(1,820)	(3,629)
Current year tax losses and other assets for which no deferred tax asset is recognized	6,116	20,557
Write-down of previously recognized deferred tax assets	-	1,918
Recognition of previously unrecognized deferred tax assets	(19,319)	(27,730)
Stock-based compensation and other non deductible expenses	1,100	2,421
	\$ 34,247	\$ 21,823
Effective income tax rate applicable to earnings before income taxes	24.2%	19.6%

The movements of deferred tax assets are summarized below:

	Losses	Employee benefits	Interest and accruals	PPE and intangible assets	Other	Total
December 31, 2013	\$ 67,588	\$ 13,323	\$ 13,234	\$ 3,416	\$ 2,595	\$ 100,156
Benefit (charge) to income	21,565	(106)	(1,836)	19,566	3,854	43,043
Benefit to other comprehensive income	-	4,372	-	-	-	4,372
Translation and other	4,673	1,090	1,031	(721)	(277)	5,796
December 31, 2014	93,826	18,679	12,429	22,261	6,172	153,367
Benefit (charge) to income	13,753	551	(238)	(6,792)	(3,807)	3,467
Benefit (charge) to other comprehensive income	-	(868)	-	-	1,684	816
Translation and other	18,056	2,313	1,392	1,598	1,223	24,582
December 31, 2015	\$ 125,635	\$ 20,675	\$ 13,583	\$ 17,067	\$ 5,272	\$ 182,232

The movements of deferred tax liabilities are summarized below:

	PPE and intangible assets	Other	Total
December 31, 2013	\$ (72,650)	\$ (401)	\$ (73,051)
Benefit (charge) to income	(21,990)	173	(21,817)
Charge to other comprehensive income	-	(2,420)	(2,420)
Translation and other	(3,774)	(582)	(4,356)
December 31, 2014	(98,414)	(3,230)	(101,644)
Charge to income	4,070	1,462	5,532
Charge to other comprehensive income	-	(3,140)	(3,140)
Translation and other	(14,456)	(863)	(15,319)
December 31, 2015	\$ (108,800)	\$ (5,771)	\$ (114,571)
Net deferred asset at December 31, 2014		\$	51,723
Net deferred asset at December 31, 2015		\$	67,661

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

The Company has accumulated approximately \$603,669 (2014 - \$546,725) in non-capital losses that are available to reduce taxable income in future years. If unused these losses will expire as follows:

Year		
2016-2018	\$	3,293
2019-2023		15,899
2024-2035		546,311
Indefinite		38,166
	\$	603,669

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

A deferred tax asset of \$65,017 in the United States (2014 - \$35,241) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently, it has been recognized.

At December 31, 2015, deferred tax assets have not been recognized in respect of the following items:

	2015	2014
Tax losses in foreign jurisdictions	\$ 93,184	\$ 94,389
Deductible temporary differences in foreign jurisdictions	1,374	1,405
Other capital items	188	190
	\$ 94,746	\$ 95,984

Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect of the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately \$393,311 at December 31, 2015 (December 31, 2014 - \$311,264).

#### 14. CAPITAL STOCK

	Number	Amount
<b>Common shares outstanding:</b>		
Balance, December 31, 2013	84,479,704	\$ 689,975
Exercise of stock options	445,379	4,223
Balance, December 31, 2014	84,925,083	\$ 694,198
Exercise of stock options	1,449,584	15,198
Balance, December 31, 2015	86,374,667	\$ 709,396

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

#### Stock options:

The Company has one stock option plan for key employees. Under the plan the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with stock option plan and the policies of the Company, and the options have a maximum term of 10 years. Options are granted throughout the year and vest between zero and four years.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,645,202	\$ 11.13	5,521,915	\$ 10.68
Granted during the period	150,000	13.87	692,000	11.94
Exercised during the period	(1,449,584)	7.67	(445,379)	6.79
Cancelled during the period	(5,001)	10.40	(123,334)	11.25
Balance, end of period	4,340,617	\$ 12.38	5,645,202	\$ 11.13
Options exercisable, end of period	4,090,617	\$ 12.41	5,110,202	\$ 11.10

The following is a summary of the issued and outstanding common share purchase options as at December 31, 2015:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$6.00 - 8.99	1,149,868	2008 - 2012	2018 - 2022
\$9.00 - 9.99	100,000	2008	2018
\$10.00 - 15.99	1,300,749	2006 - 2015	2016 - 2025
\$16.00 - 17.75	1,790,000	2007	2017
Total share purchase options	4,340,617		

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

	Year ended December 31, 2015	Year ended December 31, 2014
Expected volatility	36.87%	39.4%
Risk free interest rate	0.87%	1.4%
Expected life (years)	4	4
Dividend yield	0.87%	1.0%
Weighted average fair value of options granted	\$ 3.80	\$ 3.55

For the year ended December 31, 2015, the Company expensed \$1,384 (2014 - \$1,699) to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

### 15. EARNINGS PER SHARE

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	85,863,135	\$ 1.25	84,614,542	\$ 0.84
Effect of dilutive securities:				
Stock options	506,194	(0.01)	900,372	(0.01)
Diluted	86,369,329	\$ 1.24	85,514,914	\$ 0.83

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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.

During 2015, 2,557,000 options (2014 - 2,407,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

### 16. RESEARCH AND DEVELOPMENT COSTS

	Year ended December 31, 2015	Year ended December 31, 2014
Research and development costs, gross	\$ 24,854	\$ 29,802
Capitalized development costs	(15,193)	(20,476)
Amortization of capitalized development costs	12,104	9,033
Net expense	\$ 21,765	\$ 18,359

### 17. PERSONNEL EXPENSES

The statements of operations present operating expenses by function. Operating expenses include the following personnel-related expenses:

	Note	Year ended December 31, 2015	Year ended December 31, 2014
Wages and salaries and other short-term employee benefits		\$ 842,775	\$ 775,267
Expenses related to pension and post-retirement benefits	12	4,264	4,068
Share based payments	14	1,384	1,699
		\$ 848,423	\$ 781,034

### 18. FINANCE EXPENSE AND OTHER FINANCE INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
Debt interest, gross	\$ 28,418	\$ 25,930
Capitalized interest – at an average rate of 3.1% (2014 - 3.3 %)	(3,152)	(3,132)
Net finance expense	\$ 25,266	\$ 22,798

	Year ended December 31, 2015	Year ended December 31, 2014
Net foreign exchange gain	\$ (4,846)	\$ (1,940)
Other income, net	(79)	(197)
Other finance income	\$ (4,925)	\$ (2,137)

### 19. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated financial statements. The Company uses segment operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

The following is a summary of selected data for each of the Company's segments:

	Year ended December 31, 2015			Year ended December 31, 2014		
	Sales	Property, plant and equipment	Operating Income	Sales	Property, plant and equipment	Operating Income
North America						
Canada	\$ 827,321	\$ 159,027	\$	\$ 818,219	\$ 162,047	
USA	1,500,913	473,643		1,384,715	401,432	
Mexico	766,229	339,124		648,436	236,156	
	\$ 3,094,463	\$ 971,794	\$ 153,201	\$ 2,851,370	\$ 799,635	\$ 89,416
Europe						
Germany	500,021	77,616		567,828	71,115	
Spain	133,963	70,058		91,505	48,779	
Slovakia	50,231	15,612		28,233	13,957	
	684,215	163,286	18,048	687,566	133,851	53,160
Rest of the World	88,093	67,082	(9,488)	59,709	51,195	(10,676)
	\$ 3,866,771	\$ 1,202,162	\$ 161,761	\$ 3,598,645	\$ 984,681	\$ 131,900

Inter-segment sales are not significant for any period presented.

## 20. FINANCIAL INSTRUMENTS

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

### Fair Value

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

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

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

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 28,899	\$ 28,899	\$ -	\$ -
Foreign exchange forward contracts (note 9)	\$ (134)	\$ -	\$ (134)	\$ -
	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 52,401	\$ 52,401	\$ -	\$ -
Foreign exchange forward contracts (note 9)	\$ (9)	\$ -	\$ (9)	\$ -

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### 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:

December 31, 2015	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 586,024	\$ -	\$ 586,024	\$ 586,024
		586,024		586,024	586,024
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	(742,962)	(742,962)	(742,962)
Long-term debt	-	-	(717,012)	(717,012)	(717,012)
Foreign exchange forward contracts	(134)	-	-	(134)	(134)
	(134)	-	(1,459,974)	(1,460,108)	(1,460,108)
<b>Net financial assets (liabilities)</b>	\$ (134)	\$ 586,024	\$ (1,459,974)	\$ (874,084)	\$ (874,084)
December 31, 2014	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 520,844	\$ -	\$ 520,844	\$ 520,844
		520,844		520,844	520,844
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	(645,853)	(645,853)	(645,853)
Long-term debt	-	-	(692,442)	(692,442)	(692,442)
Foreign exchange forward contracts	(9)	-	-	(9)	(9)
	(9)	-	(1,338,295)	(1,338,304)	(1,338,304)
<b>Net financial assets (liabilities)</b>	\$ (9)	\$ 520,844	\$ (1,338,295)	\$ (817,460)	\$ (817,460)

The fair value 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 value since debt is subject to terms and conditions similar to those available to the Company for instruments with comparable terms, and the interest rates are market-based.

### Risk Management

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

#### (a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. Approximately 85% (December 31, 2014 – 85%) of the Company's production sales are derived from seven customers. A substantial portion of the Company's accounts receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at December 31, 2015 is part of the normal payment pattern within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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

	December 31, 2015		December 31, 2014	
0-60 days	\$	515,741	\$	473,337
61-90 days		22,729		15,982
Greater than 90 days		29,234		12,643
	\$	567,704	\$	501,962

### (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 December 31, 2015, the Company had cash of \$28,899 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 1.75%.

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

	Carrying amount			
	December 31, 2015		December 31, 2014	
Variable rate instruments	\$	574,818	\$	547,090
Fixed rate instruments		142,194		145,352
	\$	717,012	\$	692,442

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$5,780 (December 31, 2014 - \$4,381) on the Company's consolidated financial results for the year ended December 31, 2015.

### (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 December 31, 2015, the Company had committed to the following foreign exchange contracts:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Euro	\$ 13,867	0.9158	1
Buy Mexican Peso	1,745	17.1900	1
Buy Japanese Yen	5	120.3500	1

The aggregate value of these forward contracts as at December 31, 2015 was a pre-tax loss of \$134 and was recorded in trade and other payables (December 31, 2014 – loss of \$9 and was recorded in trade and other payables).

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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

December 31, 2015	USD		EURO		PESO		BRL		CNY	
Trade and other receivables	\$	298,727	€	60,643	\$	29,467	R\$	10,964	¥	133,003
Trade and other payables		(341,419)		(83,303)		(168,509)		(17,890)		(90,216)
Long-term debt		(275,714)		(43,381)		-		(633)		-
	\$	(318,406)	€	(66,041)	\$	(139,042)	R\$	(7,559)	¥	42,787

  

December 31, 2014	USD		EURO		PESO		BRL		CNY	
Trade and other receivables	\$	295,319	€	65,084	\$	17,654	R\$	15,171	¥	47,449
Trade and other payables		(357,294)		(88,788)		(60,722)		(16,376)		(24,372)
Long-term debt		(316,658)		(35,156)		-		(4,325)		-
	\$	(378,633)	€	(58,860)	\$	(43,068)	R\$	(5,530)	¥	23,077

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2015 and 2014:

	Average rate		Closing rate	
	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
USD	1.2607	1.0973	1.3840	1.1601
EURO	1.4130	1.4701	1.5029	1.4038
PESO	0.0806	0.0832	0.0805	0.0787
BRL	0.3956	0.4717	0.3494	0.4365
CNY	0.2013	0.1784	0.2131	0.1869

### 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 December 31 would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2015 by the amounts shown below, assuming all other variables remain constant:

	Year ended December 31, 2015	Year ended December 31, 2014
USD	\$ (3,045)	\$ 1,833
EURO	(2,417)	(7,726)
BRL	565	952
CNY	604	421
	\$ (4,293)	\$ (4,520)

A weakening of the Canadian dollar against the above currencies at December 31 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 accumulated deficit, and debt.

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

In addition to debt and equity the Company may use operating leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

### 21. COMMITMENTS AND CONTINGENCIES

#### Commitments

The Company leases certain manufacturing facilities, office equipment and vehicles under operating leases and enters into purchase obligations in the normal course of business related to inventory, services, tooling and property, plant and equipment. The aggregate expected payments towards those obligations are as follows:

	December 31, 2015	December 31, 2014
Future minimum lease payments under operating leases	\$ 140,732	\$ 94,702
Capital and other purchase commitments (all due in less than one year)	481,448	533,147
	\$ 622,180	\$ 627,849

Future minimum lease payments under operating leases are due as follows:

	December 31, 2015	December 31, 2014
Less than one year	\$ 24,314	\$ 21,867
Between one and five years	66,004	45,925
More than five years	50,414	26,910
	\$ 140,732	\$ 94,702

#### Contingencies

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

#### Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately \$62,157 (BRL \$177,898) including interest and penalties to December 31, 2015 (December 31, 2014 - \$69,067 or BRL \$158,230). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling \$43,605 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.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### 22. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At December 31, 2015, the amount of program financing was \$85,514 (December 31, 2014 - \$17,229) 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 2015 or 2014. 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.

### 23. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include the Directors and the most Senior Corporate Officers of the Company that are primarily responsible for planning, directing and controlling the Company's business activities.

The compensation expense associated with key management for employee services was included in employee salaries and benefits as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries, pension and other short-term employee benefits	\$ 9,556	\$ 6,868
Stock-based compensation expense	1,323	1,322
Termination benefits*	-	8,448
	\$ 10,879	\$ 16,638

\*On November 1, 2014, Nick Orlando stepped down as Martinrea's President and Chief Executive Officer. Upon his departure, Nick Orlando was entitled to the termination benefit as set out in his employment contract in the aggregate amount of \$8.4 million payable over a two year period. The \$8.4 million termination benefit was set up as a liability and expensed in 2014. The liability, which amounted to \$2.3 million as at December 31, 2015, is included in trade and other payables.

### 24. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company:

	Country of incorporation	Ownership interest
Martinrea Metallic Canada Inc.	Canada	100%
Martinrea Automotive Systems Canada Ltd.	Canada	100%
Martinrea Automotive Inc.	Canada	100%
Royal Automotive Group Ltd.	Canada	100%
Martinrea Metal Holdings (USA), Inc.	United States of America	100%
Martinrea Pilot Acquisition Inc.	Canada	100%
Martinrea Slovakia Fluid Systems S.R.O.	Slovakia	100%
Martinrea Pilot Acquisition II LLC	United States of America	100%
Martinrea Internacional de Mexico, S.A. de C.V.	Mexico	100%
Martinrea China Holdings Inc.	Canada	100%
Martinrea Honsel Holdings B.V. ("Martinrea Honsel")*	Netherlands	100%

\*As described in note 3, on August 7, 2014, Martinrea acquired the remaining 45% equity interest in Martinrea Honsel. Prior to the transaction, the Company held a 55% controlling interest in the business. Effective August 7, 2014, Martinrea Honsel is wholly owned by Martinrea.

## **CORPORATE INFORMATION**

### ***Corporate Head Office***

Martinrea International Inc.  
3210 Langstaff Road  
Vaughan, Ontario L4K 5B2  
E: [investor@martinrea.com](mailto:investor@martinrea.com)  
W: [www.martinrea.com](http://www.martinrea.com)

### ***Board of Directors***

Rob Wildeboer, Executive Chairman  
Martinrea International Inc.

Scott Balfour <sup>(1), (2), (3)</sup>  
Chief Operating Officer, NorthEast and Caribbean  
Emera Inc.

Pat D'Eramo  
President and Chief Executive Officer, Martinrea  
International Inc.

Roman Doroniuk <sup>(1), (2), (3)</sup>  
Independent Consultant, Financial and Strategic  
Advisory Services

Terry Lyons <sup>(1), (2), (3)</sup>  
Corporate Director and Lead Director, Canaccord  
Genuity Group Inc.

Frank Macher <sup>(1), (2), (3)</sup>  
Chief Executive Officer, Continental Structural  
Plastics

Fred Olson <sup>(1), (2), (3), (4)</sup>  
Retired, President and CEO, Webasto Product North  
America

Sandra Pupatello <sup>(1), (2), (3)</sup>  
Strategic Advisor: Industry, Global Markets and Public  
Sector, PricewaterhouseCoopers Canada

- (1) *Member, Human Resources and Compensation Committee*  
(2) *Member, Audit Committee*  
(3) *Member, Corporate Governance and Nominating Committee*  
(4) *Lead Director*

### ***Corporate Executive Officers***

Pat D'Eramo, President and Chief Executive Officer  
Rob Wildeboer, Executive Chairman  
Fred Di Tosto, Chief Financial Officer  
Armando Pagliari, Executive VP, Human Resources

### ***Certificate Transfer and Address Change***

Computershare Investor Services Inc.  
100 University Avenue, 9<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1  
T: 1 800 564-6523/1 514 982-7555  
F: 1 866 249-7775  
E: [service@computershare.com](mailto:service@computershare.com)

### ***Registrar and Transfer Agent***

Computershare Investor Services Inc.  
100 University Avenue, 9<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1  
T: 1 800 564-6523/1 514 982-7555  
F: 1 866 249-7775  
E: [service@computershare.com](mailto:service@computershare.com)

### ***Shareholder Inquiries/Investor Relations***

All inquiries should be directed to:  
Fred Di Tosto  
Martinrea International Inc.  
3210 Langstaff Road  
Vaughan, Ontario L4K 5B2  
T: 416 749-0314  
F: 289 982-3001

### ***Auditors***

KPMG LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, Ontario M5H 2S5  
T: 416 777-8500  
F: 416 777-8818

### ***Stock Listing***

The Toronto Stock Exchange (TSX: MRE)



## **MARTINREA INTERNATIONAL INC.**

---

Website: [www.martinrea.com](http://www.martinrea.com)  
Investor Information: [investor@martinrea.com](mailto:investor@martinrea.com)