



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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

| | Note | June 30, 2015 | December 31, 2014 |
|---|------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | | \$ 21,028 | \$ 52,401 |
| Trade and other receivables | 3 | 577,020 | 520,844 |
| Inventories | 4 | 309,985 | 313,436 |
| Prepaid expenses and deposits | | 15,858 | 10,039 |
| Income taxes recoverable | | 10,388 | 8,321 |
| Assets held for sale | 5 | 24,473 | - |
| TOTAL CURRENT ASSETS | | 958,752 | 905,041 |
| Property, plant and equipment | 6 | 1,051,482 | 984,681 |
| Deferred income tax assets | | 168,455 | 153,367 |
| Intangible assets | 7 | 76,247 | 71,806 |
| TOTAL NON-CURRENT ASSETS | | 1,296,184 | 1,209,854 |
| TOTAL ASSETS | | \$ 2,254,936 | \$ 2,114,895 |
| LIABILITIES | | | |
| Trade and other payables | 8 | \$ 696,803 | \$ 645,862 |
| Provisions | 9 | 4,060 | 5,504 |
| Income taxes payable | | 21,108 | 31,140 |
| Liabilities associated with assets held for sale | 5 | 3,907 | - |
| Current portion of long-term debt | 10 | 39,882 | 37,526 |
| TOTAL CURRENT LIABILITIES | | 765,760 | 720,032 |
| Long-term debt | 10 | 648,775 | 654,916 |
| Pension and other post-retirement benefits | | 63,581 | 62,557 |
| Deferred income tax liabilities | | 104,367 | 101,644 |
| TOTAL NON-CURRENT LIABILITIES | | 816,723 | 819,117 |
| TOTAL LIABILITIES | | \$ 1,582,483 | \$ 1,539,149 |
| EQUITY | | | |
| Capital stock | 12 | 706,130 | 694,198 |
| Contributed surplus | | 43,182 | 45,347 |
| Accumulated other comprehensive income | | 82,667 | 55,927 |
| Accumulated deficit | | (159,565) | (219,480) |
| TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | 672,414 | 575,992 |
| Non-controlling interest | | 39 | (246) |
| TOTAL EQUITY | | 672,453 | 575,746 |
| TOTAL LIABILITIES AND EQUITY | | \$ 2,254,936 | \$ 2,114,895 |

Contingencies (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

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

| | Note | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|------|--|--|--------------------------------------|--------------------------------------|
| SALES | | \$ 984,046 | \$ 930,915 | \$ 1,901,577 | \$ 1,795,408 |
| Cost of sales (excluding depreciation of property, plant and equipment) | | (849,387) | (809,766) | (1,644,384) | (1,562,649) |
| Depreciation of property, plant and equipment (production) | | (28,280) | (25,286) | (55,175) | (49,417) |
| Total cost of sales | | (877,667) | (835,052) | (1,699,559) | (1,612,066) |
| GROSS MARGIN | | 106,379 | 95,863 | 202,018 | 183,342 |
| Research and development costs | | (5,278) | (4,875) | (10,874) | (9,517) |
| Selling, general and administrative | | (48,606) | (45,594) | (93,283) | (88,925) |
| Depreciation of property, plant and equipment (non-production) | | (1,855) | (1,714) | (3,542) | (3,178) |
| Amortization of customer contracts and relationships | | (577) | (568) | (1,116) | (911) |
| Gain/(loss) on disposal of property, plant and equipment | | 175 | 17 | 745 | (123) |
| OPERATING INCOME | | 50,238 | 43,129 | 93,948 | 80,688 |
| Finance costs | | (6,549) | (5,330) | (13,104) | (10,509) |
| Other finance income | 14 | 650 | 231 | 3,252 | 9 |
| INCOME BEFORE INCOME TAXES | | 44,339 | 38,030 | 84,096 | 70,188 |
| Income tax expense | 11 | (10,732) | (8,404) | (19,981) | (13,903) |
| NET INCOME FOR THE PERIOD | | \$ 33,607 | \$ 29,626 | \$ 64,115 | \$ 56,285 |
| Non-controlling interest | | (196) | (6,318) | (285) | (16,286) |
| NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | \$ 33,411 | \$ 23,308 | \$ 63,830 | \$ 39,999 |
| Basic earnings per share | 13 | \$ 0.39 | \$ 0.28 | \$ 0.75 | \$ 0.47 |
| Diluted earnings per share | 13 | \$ 0.39 | \$ 0.27 | \$ 0.74 | \$ 0.47 |

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|--|--|--------------------------------------|--------------------------------------|
| NET INCOME FOR THE PERIOD | \$ 33,607 | \$ 29,626 | \$ 64,115 | \$ 56,285 |
| Other comprehensive income (loss), net of tax: | | | | |
| Items that may be reclassified to net income | | | | |
| Foreign currency translation differences for foreign operations | (324) | (34,741) | 26,740 | (3,888) |
| Items that will not be reclassified to net income | | | | |
| Actuarial gains (losses) from the remeasurement of defined benefit plans | 4,430 | (735) | 1,240 | (3,930) |
| Other comprehensive income (loss), net of tax | 4,106 | (35,476) | 27,980 | (7,818) |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | \$ 37,713 | \$ (5,850) | \$ 92,095 | \$ 48,467 |
| Attributable to: | | | | |
| Equity holders of the Company | 37,517 | (6,648) | 91,810 | 33,215 |
| Non-controlling interest | 196 | 798 | 285 | 15,252 |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | \$ 37,713 | \$ (5,850) | \$ 92,095 | \$ 48,467 |

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

| Equity attributable to equity holders of the Company | | | | | | | | |
|--|------------------|------------------------|-----------------|--------------------------------------|------------------------|------------|---------------------------------|-----------------|
| | Capital stock | Contributed surplus | 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 | - | - | - | - | 39,999 | 39,999 | 16,286 | 56,285 |
| Compensation expense related to stock options | - | 665 | - | - | - | 665 | - | 665 |
| Change in fair value of put option granted to non-controlling interest | - | - | (78,561) | - | - | (78,561) | - | (78,561) |
| Dividends (\$0.06 per share) | - | - | - | - | (5,071) | (5,071) | - | (5,071) |
| Exercise of employee stock options | 493 | (134) | - | - | - | 359 | - | 359 |
| <u>Other comprehensive income (loss), net of tax</u> | | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | - | (3,930) | (3,930) | - | (3,930) |
| Foreign currency translation differences | - | - | - | (2,854) | - | (2,854) | (1,034) | (3,888) |
| Balance at June 30, 2014 | 690,468 | 45,384 | (232,800) | 23,231 | (111,378) | 414,905 | 104,965 | 519,870 |
| Net income for the period | - | - | - | - | 31,305 | 31,305 | 1,826 | 33,131 |
| Compensation expense related to stock options | - | 1,034 | - | - | - | 1,034 | - | 1,034 |
| Change in fair value of put option granted to non-controlling interest | - | - | (2,867) | - | - | (2,867) | - | (2,867) |
| Purchase of non-controlling interest (note 2) | - | - | 235,667 | - | (127,198) | 108,469 | (108,469) | - |
| Dividends (\$0.06 per share) | - | - | - | - | (5,088) | (5,088) | - | (5,088) |
| Exercise of employee stock options | 3,730 | (1,071) | - | - | - | 2,659 | - | 2,659 |
| <u>Other comprehensive income (loss), net of tax</u> | | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | - | (7,121) | (7,121) | - | (7,121) |
| Foreign currency translation differences | - | - | - | 32,696 | - | 32,696 | 1,432 | 34,128 |
| Balance at December 31, 2014 | 694,198 | 45,347 | - | 55,927 | (219,480) | 575,992 | (246) | 575,746 |
| Net income for the period | - | - | - | - | 63,830 | 63,830 | 285 | 64,115 |
| Compensation expense related to stock options | - | 978 | - | - | - | 978 | - | 978 |
| Dividends (\$0.06 per share) | - | - | - | - | (5,155) | (5,155) | - | (5,155) |
| Exercise of employee stock options | 11,932 | (3,143) | - | - | - | 8,789 | - | 8,789 |
| <u>Other comprehensive income (loss), net of tax</u> | | | | | | | | |
| Actuarial gains from the remeasurement of defined benefit plans | - | - | - | - | 1,240 | 1,240 | - | 1,240 |
| Foreign currency translation differences | - | - | - | 26,740 | - | 26,740 | - | 26,740 |
| Balance at June 30, 2015 | \$ 706,130 | \$ 43,182 | \$ - | \$ 82,667 | \$ (159,565) | \$ 672,414 | \$ 39 | \$ 672,453 |

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|--|--|--------------------------------------|--------------------------------------|
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES: | | | | |
| Net Income for the period | \$ 33,607 | \$ 29,626 | \$ 64,115 | \$ 56,285 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 30,135 | 27,000 | 58,717 | 52,595 |
| Amortization of customer contracts and relationships | 577 | 568 | 1,116 | 911 |
| Amortization of development costs | 3,018 | 2,162 | 5,680 | 4,266 |
| Unrealized losses/(gains) on foreign exchange forward contracts | (183) | (1,344) | 817 | 1,191 |
| Finance costs | 6,549 | 5,330 | 13,104 | 10,509 |
| Income tax expense | 10,732 | 8,404 | 19,981 | 13,903 |
| (Gain)/loss on disposal of property, plant and equipment | (175) | (17) | (745) | 123 |
| Stock-based compensation | 779 | 555 | 978 | 665 |
| Pension and other post-retirement benefits expense | 1,119 | 1,265 | 2,216 | 2,432 |
| Contributions made to pension and other post-retirement benefits | (160) | (764) | (1,628) | (1,792) |
| | 85,998 | 72,785 | 164,351 | 141,088 |
| Changes in non-cash working capital items: | | | | |
| Trade and other receivables | 34,523 | 32,837 | (40,897) | (62,654) |
| Inventories | 3,955 | (6,043) | 4,380 | (22,466) |
| Prepaid expenses and deposits | (2,437) | (6,068) | (5,382) | (7,179) |
| Trade, other payables and provisions | (4,616) | 20,998 | 26,660 | 90,429 |
| | 117,423 | 114,509 | 149,112 | 139,218 |
| Interest paid (excluding capitalized interest) | (5,926) | (4,873) | (11,114) | (9,585) |
| Income taxes paid | (22,129) | (2,787) | (44,557) | (15,029) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 89,368 | \$ 106,849 | \$ 93,441 | \$ 114,604 |
| FINANCING ACTIVITIES: | | | | |
| Increase in long-term debt | - | - | 19,029 | 36,953 |
| Repayment of long-term debt | (41,819) | (48,700) | (51,416) | (58,891) |
| Dividends paid | (2,573) | (2,536) | (5,121) | (5,071) |
| Exercise of employee stock options | 2,562 | 359 | 8,789 | 359 |
| NET CASH USED IN FINANCING ACTIVITIES | \$ (41,830) | \$ (50,877) | \$ (28,719) | \$ (26,650) |
| INVESTING ACTIVITIES: | | | | |
| Purchase of property, plant and equipment* | (45,204) | (51,475) | (91,705) | (94,298) |
| Capitalized development costs | (3,549) | (5,965) | (7,571) | (9,376) |
| Proceeds on disposal of property, plant and equipment | 537 | 251 | 2,382 | 844 |
| NET CASH USED IN INVESTING ACTIVITIES | \$ (48,216) | \$ (57,189) | \$ (96,894) | \$ (102,830) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 1,032 | (3,508) | 799 | (2,888) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 354 | (4,725) | (31,373) | (17,764) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 20,674 | 43,185 | 52,401 | 56,224 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 21,028 | \$ 38,460 | \$ 21,028 | \$ 38,460 |

*As at June 30, 2015, \$6,402 (December 31, 2014 - \$13,372) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

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. It designs, engineers, manufactures and sells quality metal parts, assemblies and fluid management systems and is focused on the automotive sector.

1. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2014, except as outlined in note 1(d).

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2014.

(c) Functional and presentation currency

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

(d) Recently adopted accounting standards

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 introduce 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 interim condensed consolidated financial statements in the current or comparative periods.

2. 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%.

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

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

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.

3. TRADE AND OTHER RECEIVABLES

| | June 30, 2015 | December 31, 2014 |
|---------------------------|---------------|-------------------|
| Trade receivables | \$ 559,547 | \$ 501,962 |
| VAT and other receivables | 17,473 | 18,882 |
| | \$ 577,020 | \$ 520,844 |

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 16.

4. INVENTORIES

| | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Raw materials | \$ 151,236 | \$ 145,817 |
| Work in progress | 45,088 | 43,895 |
| Finished goods | 42,403 | 55,173 |
| Tooling work in progress and other inventory | 71,258 | 68,551 |
| | \$ 309,985 | \$ 313,436 |

5. ASSETS 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 has determined is not core to the strategy of the overall business going forward. An agreement to sell the Soest facility has been signed, subject to standard closing conditions and the transaction is expected to close in the third quarter of 2015. In accordance with IFRS, assets held for sale are measured at the lower of their book value and their fair value less costs to sell. As at June 30, 2015, the net assets value of the Soest facility held for sale represents its book value.

A brief description of the assets and liabilities of the Soest facility held for sale is as follows:

| | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Assets | | |
| Trade and other receivables | \$ 7,049 | - |
| Inventories | 12,012 | - |
| Property, plant and equipment | 5,412 | - |
| | 24,473 | - |
| Liabilities | | |
| Trade and other payables | 3,025 | - |
| Pension and other post-retirement benefits | 882 | - |
| | 3,907 | - |
| Net assets | \$ 20,566 | - |

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

6. PROPERTY, PLANT AND EQUIPMENT

| | June 30, 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 | \$ 141,227 | \$ (33,704) | \$ 107,523 | \$ 135,782 | \$ (30,365) | \$ 105,417 |
| Leasehold improvements | 49,275 | (26,855) | 22,420 | 44,756 | (24,198) | 20,558 |
| Manufacturing equipment | 1,376,254 | (658,575) | 717,679 | 1,252,106 | (588,639) | 663,467 |
| Tooling and fixtures | 36,063 | (29,996) | 6,067 | 35,977 | (29,664) | 6,313 |
| Other assets | 31,380 | (16,438) | 14,942 | 28,349 | (14,525) | 13,824 |
| Construction in progress and spare parts | 182,851 | - | 182,851 | 175,102 | - | 175,102 |
| | \$ 1,817,050 | \$ (765,568) | \$ 1,051,482 | \$ 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 | - | 330 | 4,828 | - | 770 | 78,807 | 84,735 |
| Assets held for sale (note 5) | (1,113) | - | (2,972) | (507) | (177) | (643) | (5,412) |
| Disposals | - | - | (1,481) | (154) | (2) | - | (1,637) |
| Depreciation | (1,841) | (1,868) | (52,014) | (1,314) | (1,680) | - | (58,717) |
| Transfers from construction in progress and spare parts | 191 | 2,551 | 73,083 | 1,420 | 1,750 | (78,995) | - |
| Foreign currency translation adjustment | 4,869 | 849 | 32,768 | 309 | 457 | 8,580 | 47,832 |
| Net as of June 30, 2015 | \$ 107,523 | \$ 22,420 | \$ 717,679 | \$ 6,067 | \$ 14,942 | \$ 182,851 | \$ 1,051,482 |

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At June 30, 2015, the carrying value of property, plant and equipment under such arrangements was \$32,417 (December 31, 2014 – \$35,736). The corresponding amounts owing are reflected within long-term debt (note 10).

7. INTANGIBLE ASSETS

| | June 30, 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 | \$ 61,041 | \$ (50,018) | \$ 11,023 | \$ 60,644 | \$ (48,848) | \$ 11,796 |
| Development costs | 110,867 | (45,643) | 65,224 | 97,261 | (37,251) | 60,010 |
| | \$ 171,908 | \$ (95,661) | \$ 76,247 | \$ 157,905 | \$ (86,099) | \$ 71,806 |

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

Movement in intangible assets is summarized as follows:

| | Customer contracts and relationships | | Development costs | | Total |
|---|--|--|----------------------|--|-----------|
| Net 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 | - | | 7,571 | | 7,571 |
| Amortization | (1,116) | | (5,680) | | (6,796) |
| Foreign currency translation adjustment | 343 | | 3,323 | | 3,666 |
| Net balance at June 30, 2015 | \$ 11,023 | | \$ 65,224 | | \$ 76,247 |

8. TRADE AND OTHER PAYABLES

| | June 30, 2015 | | December 31, 2014 |
|---|---------------|--|-------------------|
| Trade accounts payable and accrued liabilities | \$ 695,986 | | \$ 645,853 |
| Foreign exchange forward contracts (note 16(d)) | 817 | | 9 |
| | \$ 696,803 | | \$ 645,862 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

9. 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 | - | | 707 | | - | | 707 |
| Amounts used during the period | (1,209) | | (818) | | - | | (2,027) |
| Foreign currency translation adjustment | (15) | | (109) | | - | | (124) |
| Net as of June 30, 2015 | \$ 2,528 | | \$ 1,532 | | \$ - | | \$ 4,060 |

Based on estimated cash outflows, all provisions as at June 30, 2015 and December 31, 2014 are presented on the condensed consolidated balance sheet as current.

(a) Restructuring

As part of the acquisition of Honsel in 2011 as described in note 2, a certain level of restructuring was contemplated, in particular, at the Company's German facilities in Meschede and Soest. 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 Honsel primarily for employee related severance.

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 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.

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(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 recognized over time as the contracts were fulfilled or when the contracts were no longer considered onerous.

10. 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 16.

| | June 30, 2015 | December 31, 2014 |
|------------------|---------------|-------------------|
| Banking facility | \$ 557,115 | \$ 547,090 |
| Equipment loans | 131,542 | 145,109 |
| Other bank loans | - | 243 |
| | 688,657 | 692,442 |
| Current portion | (39,882) | (37,526) |
| | \$ 648,775 | \$ 654,916 |

Terms and conditions of outstanding loans as at June 30, 2015, in Canadian dollar equivalents, are as follows:

| | Currency | Nominal interest rate | Year of maturity | June 30, 2015 Carrying amount | December 31, 2014 Carrying amount |
|------------------|----------|-----------------------|------------------|----------------------------------|--------------------------------------|
| Banking facility | CAD | BA+1.5% | 2018 | \$ 269,845 | \$ 274,466 |
| | USD | LIBOR+1.5% | 2018 | 287,270 | 272,624 |
| Equipment loans | USD | 4.25% | 2018 | 44,652 | 46,742 |
| | USD | 4.25% | 2017 | 16,547 | 18,846 |
| | EUR | 3.06% | 2024 | 15,074 | 15,195 |
| | EUR | 4.93% | 2023 | 14,495 | 14,735 |
| | USD | 7.36% | 2017 | 13,650 | 14,948 |
| | EUR | 3.37% | 2017 | 10,576 | 13,806 |
| | EUR | 3.35% | 2019 | 5,570 | 5,615 |
| | USD | 3.89% | 2016 | 4,883 | 6,405 |
| | USD | 3.99% | 2017 | 3,449 | 4,176 |
| | USD | 3.65% | 2016 | 1,538 | 1,982 |
| | USD | 4.69% | 2017 | 827 | 1,013 |
| | BRL | 5.00% | 2020 | 281 | 336 |
| BRL | 11.88% | 2015 | - | 1,310 | |
| Other bank loans | BRL | 14.00% | 2015 | - | 243 |
| | | | | \$ 688,657 | \$ 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 2. 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 June 30, 2015, the Company has drawn US\$230,000 (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 June 30, 2015, the weighted average effective rate of the banking facility

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credit lines was 3.0% (December 31, 2014 - 3.3%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2015.

Deferred financing fees of \$3,578 (December 31, 2014 - \$4,155) have been netted against the carrying amount of the long term debt.

Future annual minimum principal repayments are as follows:

| | | |
|---------------------|----|---------|
| Within one year | \$ | 39,882 |
| One to two years | | 34,443 |
| Two to three years | | 19,441 |
| Three to four years | | 572,506 |
| Thereafter | | 22,385 |
| | \$ | 688,657 |

11. INCOME TAXES

The components of income tax expense are as follows:

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Current income tax expense | \$ 16,745 | \$ 11,031 | \$ 31,370 | \$ 20,707 |
| Deferred income tax recovery | (6,013) | (2,627) | (11,389) | (6,804) |
| Total income tax expense | \$ 10,732 | \$ 8,404 | \$ 19,981 | \$ 13,903 |

12. CAPITAL STOCK

| Common shares outstanding: | Number | Amount |
|----------------------------|------------|------------|
| Balance, December 31, 2013 | 84,479,704 | \$ 689,975 |
| Exercise of stock options | 54,600 | 493 |
| Balance, June 30, 2014 | 84,534,304 | \$ 690,468 |
| Exercise of stock options | 390,779 | 3,730 |
| Balance, December 31, 2014 | 84,925,083 | \$ 694,198 |
| Exercise of stock options | 1,155,250 | 11,932 |
| Balance, June 30, 2015 | 86,080,333 | \$ 706,130 |

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.

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

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| | Six months ended June 30, 2015 | | Six months ended June 30, 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 | 192,000 | 11.92 |
| Exercised during the period | (1,155,250) | 7.61 | (54,600) | 6.58 |
| Cancelled during the period | - | - | (118,334) | 11.29 |
| Balance, end of period | 4,639,952 | \$ 12.09 | 5,540,981 | \$ 10.75 |
| Options exercisable, end of period | 4,239,952 | \$ 12.13 | 5,075,981 | \$ 10.99 |

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2015:

| Range of exercise price per share | Number outstanding | Date of grant | Expiry |
|-----------------------------------|-----------------------|---------------|-------------|
| \$3.00 - 5.99 | 5,000 | 2005 | 2015 |
| \$6.00 - 8.99 | 1,389,202 | 2008-2012 | 2018 - 2022 |
| \$9.00 - 9.99 | 100,000 | 2008 | 2018 |
| \$10.00 - 15.99 | 1,355,750 | 2006 - 2015 | 2016 - 2025 |
| \$16.00 - 17.75 | 1,790,000 | 2007 | 2017 |
| Total share purchase options | 4,639,952 | | |

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

| | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|--|-----------------------------------|-----------------------------------|
| Expected volatility | 36.87% | 39.41% |
| Risk free interest rate | 0.87% | 1.47% |
| Expected life (years) | 4 | 4 |
| Dividend yield | 0.87% | 1.11% |
| Weighted average fair value of options granted | \$ 3.80 | \$ 3.55 |

For the three and six months ended June 30, 2015, the Company expensed \$779 (three months ended June 30, 2014 - \$555) and \$978 (six months ended June 30, 2014 - \$665), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

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13. EARNINGS PER SHARE

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

| | Three months ended June 30, 2015 | | Three months ended June 30, 2014 | |
|--------------------------------|--|----------------------------|--|----------------------------|
| | Weighted average number of shares | Per common share amount | Weighted average number of shares | Per common share amount |
| Basic | 85,800,196 | \$ 0.39 | 84,497,594 | \$ 0.28 |
| Effect of dilutive securities: | | | | |
| Stock options | 807,880 | - | 1,111,127 | (0.01) |
| Diluted | 86,608,076 | \$ 0.39 | 85,608,721 | \$ 0.27 |

| | Six months ended June 30, 2015 | | Six months ended June 30, 2014 | |
|--------------------------------|--|----------------------------|--|----------------------------|
| | Weighted average number of shares | Per common share amount | Weighted average number of shares | Per common share amount |
| Basic | 85,443,877 | \$ 0.75 | 84,488,649 | \$ 0.47 |
| Effect of dilutive securities: | | | | |
| Stock options | 655,463 | (0.01) | 827,856 | - |
| Diluted | 86,099,340 | \$ 0.74 | 85,316,505 | \$ 0.47 |

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

For the three months ended June 30, 2015, 1,940,000 options (three months ended June 30, 2014, – 1,907,000) and for the six months ended June 30, 2015, 2,057,000 options (six months ended June 30, 2014, – 2,602,000) were excluded from the diluted weighted average per share calculation as they were anti dilutive.

14. OTHER FINANCE INCOME (EXPENSE)

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|----------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Net foreign exchange gain (loss) | \$ 632 | \$ 176 | \$ 3,223 | \$ (105) |
| Other income, net | 18 | 55 | 29 | 114 |
| Other finance income | \$ 650 | \$ 231 | \$ 3,252 | \$ 9 |

15. 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 World.

The accounting policies of the segments are the same as those described in the Company's annual audited consolidated financial statements for the year ended December 31, 2014. The Company uses segment operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

| | Three months ended June 30, 2015 | | Three months ended June 30, 2014 | |
|---------------|----------------------------------|------------------|----------------------------------|------------------|
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | \$ 211,649 | | \$ 207,697 | \$ |
| USA | 382,859 | | 359,420 | |
| Mexico | 204,197 | | 178,187 | |
| | \$ 798,705 | \$ 44,757 | \$ 745,304 | \$ 33,654 |
| Europe | | | | |
| Germany | 123,811 | | 144,148 | |
| Spain | 30,249 | | 22,368 | |
| Slovakia | 11,902 | | 6,521 | |
| | \$ 165,962 | \$ 7,681 | \$ 173,037 | 12,398 |
| Rest of World | \$ 19,379 | \$ (2,200) | \$ 12,574 | (2,923) |
| | \$ 984,046 | \$ 50,238 | \$ 930,915 | \$ 43,129 |

| | Six months ended June 30, 2015 | | Six months ended June 30, 2014 | |
|---------------|--------------------------------|------------------|--------------------------------|------------------|
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | \$ 411,491 | | \$ 403,214 | \$ |
| USA | 718,707 | | 672,089 | |
| Mexico | 381,623 | | 333,665 | |
| | \$ 1,511,821 | \$ 82,334 | \$ 1,408,968 | \$ 55,022 |
| Europe | | | | |
| Germany | 266,617 | | 297,662 | |
| Spain | 63,467 | | 46,995 | |
| Slovakia | 23,280 | | 12,033 | |
| | \$ 353,364 | \$ 15,999 | \$ 356,690 | 30,072 |
| Rest of World | \$ 36,392 | \$ (4,385) | \$ 29,750 | (4,406) |
| | \$ 1,901,577 | \$ 93,948 | \$ 1,795,408 | \$ 80,688 |

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

16. 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:

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| | June 30, 2015 | | | |
|------------------------------------|---------------|-----------|----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 21,028 | \$ 21,028 | \$ - | \$ - |
| Foreign exchange forward contracts | \$ (817) | \$ - | \$ (817) | \$ - |

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

Fair values versus carrying amounts

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

| June 30, 2015 | Fair value through profit or loss | Loans and receivables | Amortized cost | Carrying amount | Fair value |
|---|-----------------------------------|-----------------------|-----------------------|---------------------|---------------------|
| FINANCIAL ASSETS: | | | | | |
| Trade and other receivables | \$ - | \$ 577,020 | \$ - | \$ 577,020 | \$ 577,020 |
| | - | 577,020 | - | 577,020 | 577,020 |
| FINANCIAL LIABILITIES: | | | | | |
| Trade and other payables | - | - | 695,986 | 695,986 | 695,986 |
| Long-term debt | - | - | 688,657 | 688,657 | 688,657 |
| Foreign exchange forward contracts | 817 | - | - | 817 | 817 |
| | 817 | - | 1,384,643 | 1,385,460 | 1,385,460 |
| Net financial assets (liabilities) | \$ (817) | \$ 577,020 | \$ (1,384,643) | \$ (808,440) | \$ (808,440) |

| December 31, 2014 | Fair value through profit or loss | Loans and receivables | Amortized cost | Carrying amount | Fair value |
|---|-----------------------------------|-----------------------|-----------------------|---------------------|---------------------|
| FINANCIAL ASSETS: | | | | | |
| Trade and other receivables | \$ - | \$ 520,844 | \$ - | \$ 520,844 | \$ 520,844 |
| | - | 520,844 | - | 520,844 | 520,844 |
| FINANCIAL LIABILITIES: | | | | | |
| 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 |
| Net financial assets (liabilities) | \$ (9) | \$ 520,844 | \$ (1,338,295) | \$ (817,460) | \$ (817,460) |

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

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 risks 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.

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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 87% 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 were past due as at June 30, 2015 are part of normal payment patterns within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

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

| | June 30, 2015 | December 31, 2014 |
|----------------------|-------------------|-------------------|
| 0-60 days | \$ 531,074 | \$ 473,337 |
| 61-90 days | 14,686 | 15,982 |
| Greater than 90 days | 13,787 | 12,643 |
| | \$ 559,547 | \$ 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 June 30, 2015, the Company had cash of \$21,028 and banking facilities available as discussed in note 10. 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 10.

(c) Interest rate risk

Interest rate risk refers to the risk 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 Bankers 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 | |
|---------------------------|-------------------|-------------------|
| | June 30, 2015 | December 31, 2014 |
| Variable rate instruments | \$ 557,115 | \$ 547,090 |
| Fixed rate instruments | 131,542 | 145,352 |
| | \$ 688,657 | \$ 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 \$1,443 (three months ended June 30, 2014 - \$808) on the Company's interim consolidated financial results for the three months ended June 30, 2015 and \$2,874 for the six months ended June 30, 2015 (six months ended June 30, 2014 - \$1,626)

(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

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and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At June 30, 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 Canadian Dollars | \$ 10,000 | \$ 1.1696 | 6 |
| Buy Euro | 7,557 | 0.8972 | 1 |
| Buy Mexican Peso | 1,595 | 15.6739 | 1 |

The aggregate value of these forward contracts as at June 30, 2015 was a loss of \$817 and was recorded in trade and other payables (December 31, 2014 - loss of \$9 and was recorded in trade and other payables).

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

| June 30, 2015 | USD | EURO | PESO | BRL | CNY |
|-----------------------------|--------------|------------|-------------|-------------|----------|
| Trade and other receivables | \$ 316,278 | € 66,198 | \$ 28,156 | R\$ 16,592 | ¥ 60,395 |
| Trade and other payables | (348,354) | (92,280) | (109,765) | (24,997) | (41,373) |
| Long-term debt | (298,834) | (32,826) | - | (701) | - |
| | \$ (330,910) | € (58,908) | \$ (81,609) | R\$ (9,106) | ¥ 19,022 |

| 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 three and six months ended June 30, 2015 and 2014:

| | Average rate | | Average rate | | Closing rate | |
|------|----------------------------------|----------------------------------|--------------------------------|--------------------------------|---------------|-------------------|
| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 | June 30, 2015 | December 31, 2014 |
| USD | 1.2374 | 1.0994 | 1.2213 | 1.0938 | 1.2490 | 1.1601 |
| EURO | 1.3520 | 1.5161 | 1.3839 | 1.5012 | 1.3926 | 1.4038 |
| PESO | 0.0812 | 0.0842 | 0.0815 | 0.0833 | 0.0795 | 0.0787 |
| BRL | 0.4023 | 0.4866 | 0.4245 | 0.4728 | 0.4008 | 0.4365 |
| CNY | 0.1991 | 0.1770 | 0.1964 | 0.1781 | 0.2012 | 0.1869 |

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10 percent strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2015 by the amounts shown below, assuming all other variables remain constant:

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|------|----------------------------------|----------------------------------|--------------------------------|--------------------------------|
| USD | \$ (1,931) | \$ (1,516) | \$ (3,706) | \$ (2,010) |
| EURO | (872) | (1,257) | (1,569) | (2,888) |
| BRL | 88 | 278 | 193 | 395 |
| CNY | 205 | 40 | 335 | 128 |
| | \$ (2,510) | \$ (2,455) | \$ (4,747) | \$ (4,375) |

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

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

17. CONTINGENCIES

Contingencies

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

Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately \$66,824 (BRL \$166,728) including interest and penalties to June 30, 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 \$43,715 at some point in 2015 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.

18. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At June 30, 2015, the amount of the program financing was \$26,300 (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

Martinrea International Inc.

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

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 to date 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.