



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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

Martinrea International Inc.

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Martinrea International Inc.
Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

| | Note | September 30, 2016 | December 31, 2015 |
|---|------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | | \$ 47,568 | \$ 28,899 |
| Trade and other receivables | 2 | 626,673 | 586,024 |
| Inventories | 3 | 328,054 | 356,969 |
| Prepaid expenses and deposits | | 15,263 | 13,651 |
| Income taxes recoverable | | 15,143 | 10,401 |
| TOTAL CURRENT ASSETS | | 1,032,701 | 995,944 |
| Property, plant and equipment | 5 | 1,170,078 | 1,202,162 |
| Deferred income tax assets | | 170,875 | 182,232 |
| Intangible assets | 6 | 73,810 | 83,590 |
| TOTAL NON-CURRENT ASSETS | | 1,414,763 | 1,467,984 |
| TOTAL ASSETS | | \$ 2,447,464 | \$ 2,463,928 |
| LIABILITIES | | | |
| Trade and other payables | 8 | \$ 715,118 | \$ 743,096 |
| Provisions | 9 | 10,960 | 15,598 |
| Income taxes payable | | 20,920 | 29,873 |
| Current portion of long term debt | 10 | 32,409 | 43,399 |
| TOTAL CURRENT LIABILITIES | | 779,407 | 831,966 |
| Long term debt | 10 | 696,548 | 673,613 |
| Pension and other post-retirement benefits | | 78,401 | 67,552 |
| Deferred income tax liabilities | | 107,686 | 114,571 |
| TOTAL NON-CURRENT LIABILITIES | | 882,635 | 855,736 |
| TOTAL LIABILITIES | | 1,662,042 | 1,687,702 |
| EQUITY | | | |
| Capital Stock | 12 | 709,497 | 709,396 |
| Contributed surplus | | 42,869 | 42,648 |
| Accumulated other comprehensive income | | 112,208 | 147,442 |
| Accumulated deficit | | (78,753) | (123,157) |
| TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | 785,821 | 776,329 |
| Non-controlling interest | | (399) | (103) |
| TOTAL EQUITY | | 785,422 | 776,226 |
| TOTAL LIABILITIES AND EQUITY | | \$ 2,447,464 | \$ 2,463,928 |

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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|------|--|--|---|---|
| SALES | | \$ 914,725 | \$ 929,880 | \$ 2,978,000 | \$ 2,831,457 |
| Cost of sales (excluding depreciation of property, plant and equipment) | | (783,692) | (803,477) | (2,556,008) | (2,447,861) |
| Depreciation of property, plant and equipment (production) | | (31,335) | (30,018) | (94,254) | (85,193) |
| Total cost of sales | | (815,027) | (833,495) | (2,650,262) | (2,533,054) |
| GROSS MARGIN | | 99,698 | 96,385 | 327,738 | 298,403 |
| Research and development costs | | (5,482) | (5,911) | (17,614) | (16,785) |
| Selling, general and administrative | | (48,023) | (49,300) | (150,138) | (142,583) |
| Depreciation of property, plant and equipment (non-production) | | (2,165) | (1,861) | (6,469) | (5,403) |
| Amortization of customer contracts and relationships | | (587) | (495) | (1,710) | (1,611) |
| Impairment of assets | 7 | - | - | (34,579) | - |
| Restructuring costs | 9 | - | (13,619) | (3,684) | (13,619) |
| Loss on sale of assets and liabilities held for sale | 4 | - | (370) | - | (370) |
| Gain/(loss) on disposal of property, plant and equipment | | (47) | 8 | (76) | 753 |
| OPERATING INCOME | | 43,394 | 24,837 | 113,468 | 118,785 |
| Finance expense | | (6,018) | (6,325) | (18,112) | (19,429) |
| Other finance income (expense) | 14 | 770 | 807 | (2,570) | 4,059 |
| INCOME BEFORE INCOME TAXES | | 38,146 | 19,319 | 92,786 | 103,415 |
| Income tax expense | 11 | (9,319) | (4,087) | (31,455) | (24,068) |
| NET INCOME FOR THE PERIOD | | \$ 28,827 | \$ 15,232 | \$ 61,331 | \$ 79,347 |
| Non-controlling interest | | 271 | 237 | 296 | (48) |
| NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | \$ 29,098 | \$ 15,469 | \$ 61,627 | \$ 79,299 |
| Basic earnings per share | 13 | \$ 0.34 | \$ 0.18 | \$ 0.71 | \$ 0.93 |
| Diluted earnings per share | 13 | \$ 0.34 | \$ 0.18 | \$ 0.71 | \$ 0.92 |

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|--|--|--|---|---|
| NET INCOME FOR THE PERIOD | \$ 28,827 | \$ 15,232 | \$ 61,331 | \$ 79,347 |
| Other comprehensive income (loss), net of tax: | | | | |
| Items that may be reclassified to net income | | | | |
| Foreign currency translation differences for foreign operations | 15,690 | 43,758 | (35,234) | 70,498 |
| Items that will not be reclassified to net income | | | | |
| Actuarial gains (losses) from the remeasurement of defined benefit plans | (4,028) | (1,104) | (9,448) | 136 |
| Other comprehensive income (loss), net of tax | 11,662 | 42,654 | (44,682) | 70,634 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | \$ 40,489 | \$ 57,886 | \$ 16,649 | \$ 149,981 |
| Attributable to: | | | | |
| Equity holders of the Company | 40,760 | 58,123 | 16,945 | 149,933 |
| Non-controlling interest | (271) | (237) | (296) | 48 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | \$ 40,489 | \$ 57,886 | \$ 16,649 | \$ 149,981 |

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 | Cumulative translation account | Accumulated deficit | Total | Non- controlling interest | Total equity |
| Balance at December 31, 2014 | \$ 694,198 | \$ 45,347 | \$ 55,927 | \$ (219,480) | \$ 575,992 | \$ (246) | \$ 575,746 |
| Net income for the period | - | - | - | 79,299 | 79,299 | 48 | 79,347 |
| Compensation expense related to stock options | - | 1,180 | - | - | 1,180 | - | 1,180 |
| Dividends (\$0.09 per share) | - | - | - | (7,745) | (7,745) | - | (7,745) |
| Exercise of employee stock options | 14,564 | (3,906) | - | - | 10,658 | - | 10,658 |
| <u>Other comprehensive income,</u> | | | | | | | |
| <u>net of tax</u> | | | | | | | |
| Actuarial gains from the remeasurement of defined benefit plans | - | - | - | 136 | 136 | - | 136 |
| Foreign currency translation differences | - | - | 70,498 | - | 70,498 | - | 70,498 |
| Balance at September 30, 2015 | 708,762 | 42,621 | 126,425 | (147,790) | 730,018 | (198) | 729,820 |
| Net income for the period | - | - | - | 27,731 | 27,731 | 95 | 27,826 |
| Compensation expense related to stock options | - | 204 | - | - | 204 | - | 204 |
| Dividends (\$0.03 per share) | - | - | - | (2,591) | (2,591) | - | (2,591) |
| Exercise of employee stock options | 634 | (177) | - | - | 457 | - | 457 |
| <u>Other comprehensive income,</u> | | | | | | | |
| <u>net of tax</u> | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | (507) | (507) | - | (507) |
| Foreign currency translation differences | - | - | 21,017 | - | 21,017 | - | 21,017 |
| Balance at December 31, 2015 | 709,396 | 42,648 | 147,442 | (123,157) | 776,329 | (103) | 776,226 |
| Net income for the period | - | - | - | 61,627 | 61,627 | (296) | 61,331 |
| Compensation expense related to stock options | - | 250 | - | - | 250 | - | 250 |
| Dividends (\$0.09 per share) | - | - | - | (7,775) | (7,775) | - | (7,775) |
| Exercise of employee stock options | 101 | (29) | - | - | 72 | - | 72 |
| <u>Other comprehensive loss,</u> | | | | | | | |
| <u>net of tax</u> | | | | | | | |
| Actuarial losses from the remeasurement of defined benefit plans | - | - | - | (9,448) | (9,448) | - | (9,448) |
| Foreign currency translation differences | - | - | (35,234) | - | (35,234) | - | (35,234) |
| Balance at September 30, 2016 | \$ 709,497 | \$ 42,869 | \$ 112,208 | \$ (78,753) | \$ 785,821 | \$ (399) | \$ 785,422 |

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|--|--|--|---|---|
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES: | | | | |
| Net Income for the period | \$ 28,827 | \$ 15,232 | \$ 61,331 | \$ 79,347 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 33,500 | 31,879 | 100,723 | 90,596 |
| Amortization of customer contracts and relationships | 587 | 495 | 1,710 | 1,611 |
| Amortization of development costs | 3,086 | 3,179 | 10,045 | 8,859 |
| Impairment of assets (note 7) | - | - | 34,579 | - |
| Unrealized (gains) losses on foreign exchange forward contracts | (772) | 824 | 144 | 1,641 |
| Finance costs | 6,018 | 6,325 | 18,112 | 19,429 |
| Income tax expense | 9,319 | 4,087 | 31,455 | 24,068 |
| Loss on sale of assets and liabilities held for sale (note 4) | - | 370 | - | 370 |
| (Gain)/loss on disposal of property, plant and equipment | 47 | (8) | 76 | (753) |
| Stock based compensation | 84 | 202 | 250 | 1,180 |
| Pension and other post-retirement benefits expense | 1,183 | 861 | 3,450 | 3,077 |
| Contributions made to pension and other post-retirement benefits | (308) | (1,332) | (1,347) | (2,960) |
| | 81,571 | 62,114 | 260,528 | 226,465 |
| Changes in non-cash working capital items: | | | | |
| Trade and other receivables | 185 | (20,978) | (65,961) | (61,875) |
| Inventories | (2,305) | (21,349) | 6,023 | (16,969) |
| Prepaid expenses and deposits | (693) | (4,857) | (1,513) | (10,239) |
| Trade, other payables and provisions | 13,715 | 8,726 | 22,357 | 35,386 |
| | 92,473 | 23,656 | 221,434 | 172,768 |
| Interest paid (excluding capitalized interest) | (5,336) | (6,320) | (15,336) | (17,434) |
| Income taxes paid | (9,527) | (4,528) | (40,795) | (49,085) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 77,610 | \$ 12,808 | \$ 165,303 | \$ 106,249 |
| FINANCING ACTIVITIES: | | | | |
| Increase in long term debt | 66 | 13,116 | 88,876 | 32,145 |
| Repayment of long term debt | (29,087) | (10,327) | (51,607) | (61,743) |
| Dividends paid | (2,591) | (2,582) | (7,774) | (7,703) |
| Exercise of employee stock options | - | 1,869 | 72 | 10,658 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | \$ (31,612) | \$ 2,076 | \$ 29,567 | \$ (26,643) |
| INVESTING ACTIVITIES: | | | | |
| Purchase of property, plant and equipment* | (61,981) | (45,404) | (164,942) | (137,109) |
| Capitalized development costs | (3,342) | (3,999) | (9,653) | (11,570) |
| Proceeds on sale of assets and liabilities held for sale (note 4) | - | 20,638 | - | 20,638 |
| Proceeds on disposal of property, plant and equipment | 125 | 116 | 370 | 2,498 |
| NET CASH USED IN INVESTING ACTIVITIES | \$ (65,198) | \$ (28,649) | \$ (174,225) | \$ (125,543) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 1,931 | 633 | (1,976) | 1,432 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (17,269) | (13,132) | 18,669 | (44,505) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 64,837 | 21,028 | 28,899 | 52,401 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 47,568 | \$ 7,896 | \$ 47,568 | \$ 7,896 |

*As at September 30, 2016, \$20,804 (December 31, 2015 - \$49,013) 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. The Company is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector.

1. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2015, 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, 2015.

(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

Deferred Share Unit Plan

On May 3, 2016, a Deferred Share Unit Plan (the "DSU Plan") was established as a means of compensating non-executive directors and designated employees of the Company and of promoting share ownership and alignment with the shareholders' interests. Non-executive directors of Martinrea are automatically required to participate in the DSU Plan while employees may be designated from time to time, at the sole discretion of the Board of Directors.

Vesting conditions may be attached to the DSUs at the Board of Directors' discretion. To date, DSUs granted to directors vest immediately. DSU Plan participants receive additional DSUs equivalent to cash dividends paid on common shares. DSUs are paid out in cash upon termination of service, based on their fair market value, which is defined as the average closing share price of the Company's common shares for the 20 days preceding the termination date.

DSUs are considered cash-settled awards. The fair value of DSUs, at the date of grant to the DSU Plan participants, is recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the DSUs are fair valued at the end of every reporting period and at the settlement date. Any change in the fair value of the liability is recognized as compensation expense in earnings.

IFRS 11, Joint Arrangements

Effective January 1, 2016, the Company adopted the amendment made to IFRS 11, Joint Arrangements. The amendment to this standard requires business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business.

The adoption of this amended standard did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

(e) Recently issued accounting standards

The IASB issued the following amendments to existing standards:

Amendments to IFRS 2, Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the amendments has not yet been determined.

Amendments to IAS 7, Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017. The extent of the impact of the adoption of the amendments has not yet been determined.

2. TRADE AND OTHER RECEIVABLES

| | September 30, 2016 | December 31, 2015 |
|---------------------------|--------------------|-------------------|
| Trade receivables | \$ 613,626 | \$ 567,704 |
| VAT and other receivables | 13,047 | 18,320 |
| | \$ 626,673 | \$ 586,024 |

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

3. INVENTORIES

| | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| Raw materials | \$ 146,882 | \$ 168,246 |
| Work in progress | 44,046 | 44,346 |
| Finished goods | 43,676 | 45,898 |
| Tooling work in progress and other inventory | 93,450 | 98,479 |
| | \$ 328,054 | \$ 356,969 |

4. 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 Interim Condensed Consolidated Financial Statements

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

5. PROPERTY, PLANT AND EQUIPMENT

| | September 30, 2016 | | | December 31, 2015 | | |
|--|--------------------|--|----------------|-------------------|--|----------------|
| | Cost | Accumulated amortization and impairment losses | Net book value | Cost | Accumulated amortization and impairment losses | Net book value |
| Land and buildings | \$ 158,062 | \$ (39,766) | \$ 118,296 | \$ 151,354 | \$ (38,031) | \$ 113,323 |
| Leasehold improvements | 54,737 | (33,583) | 21,154 | 54,861 | (30,257) | 24,604 |
| Manufacturing equipment | 1,654,227 | (847,277) | 806,950 | 1,552,322 | (771,572) | 780,750 |
| Tooling and fixtures | 39,058 | (33,329) | 5,729 | 39,286 | (33,543) | 5,743 |
| Other assets | 39,093 | (21,805) | 17,288 | 37,262 | (19,326) | 17,936 |
| Construction in progress and spare parts | 200,661 | - | 200,661 | 259,806 | - | 259,806 |
| | \$ 2,145,838 | \$ (975,760) | \$ 1,170,078 | \$ 2,094,891 | \$ (892,729) | \$ 1,202,162 |

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, 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 | (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 |
| Additions | - | 219 | 3,652 | 18 | 216 | 132,628 | 136,733 |
| Disposals | (4) | - | (198) | - | (37) | (207) | (446) |
| Depreciation | (3,004) | (3,448) | (90,037) | (1,210) | (3,024) | - | (100,723) |
| Impairment (note 7) | - | (723) | (21,021) | - | (26) | - | (21,770) |
| Transfers from construction in progress and spare parts | 11,799 | 1,270 | 165,631 | 1,381 | 2,858 | (182,939) | - |
| Foreign currency translation adjustment | (3,818) | (768) | (31,827) | (203) | (635) | (8,627) | (45,878) |
| Net as of September 30, 2016 | \$ 118,296 | \$ 21,154 | \$ 806,950 | \$ 5,729 | \$ 17,288 | \$ 200,661 | \$ 1,170,078 |

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At September 30, 2016, the carrying value of property, plant and equipment under such arrangements was \$27,240 (December 31, 2015 – \$32,834). The corresponding amounts owing are reflected within long term debt (note 10).

6. INTANGIBLE ASSETS

| | September 30, 2016 | | | December 31, 2015 | | |
|--------------------------------------|--------------------|--|----------------|-------------------|--|----------------|
| | Cost | Accumulated amortization and impairment losses | Net book value | Cost | Accumulated amortization and impairment losses | Net book value |
| Customer contracts and relationships | \$ 61,931 | \$ (53,154) | \$ 8,777 | \$ 62,556 | \$ (51,783) | \$ 10,773 |
| Development costs | 133,527 | (68,494) | 65,033 | 129,906 | (57,089) | 72,817 |
| | \$ 195,458 | \$ (121,648) | \$ 73,810 | \$ 192,462 | \$ (108,872) | \$ 83,590 |

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

Movement in intangible assets is summarized as follows:

| | Customer contracts and relationships | Development costs | Total |
|---|--|----------------------|-----------|
| Net as of December 31, 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 as of December 31, 2015 | \$ 10,773 | \$ 72,817 | \$ 83,590 |
| Additions | - | 9,653 | 9,653 |
| Amortization | (1,710) | (10,045) | (11,755) |
| Impairment (note 7) | - | (4,179) | (4,179) |
| Foreign currency translation adjustment | (286) | (3,213) | (3,499) |
| Net as of September 30, 2016 | \$ 8,777 | \$ 65,033 | \$ 73,810 |

7. IMPAIRMENT OF ASSETS

During the second quarter of 2016, the Company recorded impairment charges on property, plant, equipment, intangible assets and inventories totalling \$34,579 (US \$26,599) related to an operating facility in Detroit, Michigan included in the North American operating segment. The impairment charges resulted from the cancellation of the main OEM light vehicle platform being serviced by the facility, representing the majority of the business, well before the end of its expected life cycle. This has led to a decision to close the facility. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---------------------------------------|--|--|---|---|
| Property, plant and equipment | \$ - | \$ - | 21,770 | \$ - |
| Intangible Assets – Development costs | - | - | 4,179 | - |
| Inventories | - | - | 8,630 | - |
| Total Impairment | \$ - | \$ - | 34,579 | \$ - |

8. TRADE AND OTHER PAYABLES

| | September 30, 2016 | December 31, 2015 |
|---|--------------------|-------------------|
| Trade accounts payable and accrued liabilities | \$ 714,974 | \$ 742,962 |
| Foreign exchange forward contracts (note 16(d)) | 144 | 134 |
| | \$ 715,118 | \$ 743,096 |

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

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

9. PROVISIONS

| | Restructuring (a) | | Claims and Litigations (b) | | Total |
|---|----------------------|---------|----------------------------------|---------|-----------|
| 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 |
| Net additions | | 3,684 | | 333 | 4,017 |
| Amounts used during the period | | (8,199) | | (422) | (8,621) |
| Foreign currency translation adjustment | | (201) | | 167 | (34) |
| Net as of September 30, 2016 | \$ | 9,310 | \$ | 1,650 | \$ 10,960 |

Based on estimated cash outflows, all provisions as at September 30, 2016 and December 31, 2015 are presented on the interim condensed consolidated balance sheet as current.

(a) Restructuring

As part of the acquisition of Honsel in 2011, a certain level of restructuring was contemplated, in particular, at the Company's German facility in Meschede. Additional restructuring costs in Meschede, Germany in the form of employee related severance of \$1,810 (€1,238) were incurred during the second quarter of 2016. No further costs related to this restructuring are expected to be incurred.

Other additions to the restructuring accrual during 2016 totalled \$1,874 (US\$1,441) and represent expected employee related payouts resulting from the closure of the operating facility in Detroit, Michigan as described in note 7.

(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.

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.

| | September 30, 2016 | | December 31, 2015 | |
|------------------|--------------------|----------|-------------------|----------|
| Banking facility | \$ | 623,278 | \$ | 574,818 |
| Equipment loans | | 105,679 | | 142,194 |
| | | 728,957 | | 717,012 |
| Current portion | | (32,409) | | (43,399) |
| | \$ | 696,548 | \$ | 673,613 |

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Terms and conditions of outstanding loans as at September 30, 2016, in Canadian dollar equivalents, are as follows:

| | Currency | Nominal interest rate | Year of maturity | September 30, 2016 Carrying amount | December 31, 2015 Carrying amount |
|------------------|----------|-----------------------|------------------|---------------------------------------|--------------------------------------|
| Banking facility | USD | LIBOR+2.0% | 2020 | \$ 354,159 | \$ 304,480 |
| | CAD | BA+2.0% | 2020 | 269,119 | 270,338 |
| Equipment loans | USD | 4.25% | 2018 | 30,586 | 42,926 |
| | EUR | 3.06% | 2024 | 15,950 | 16,267 |
| | EUR | 2.54% | 2025 | 15,238 | 15,537 |
| | EUR | 4.93% | 2023 | 14,945 | 15,509 |
| | USD | 7.36% | 2017 | 7,496 | 12,319 |
| | USD | 4.25% | 2017 | 7,179 | 14,100 |
| | EUR | 3.37% | 2017 | 4,415 | 7,988 |
| | EUR | 3.35% | 2019 | 4,313 | 5,419 |
| | EUR | 4.34% | 2025 | 3,162 | 3,225 |
| | EUR | 1.36% | 2021 | 884 | 902 |
| | USD | 3.99% | 2017 | 782 | 2,642 |
| | EUR | 0.26% | 2025 | 367 | 352 |
| | BRL | 5.00% | 2020 | 214 | 221 |
| | USD | 4.69% | 2017 | 148 | 619 |
| | USD | 3.89% | 2016 | - | 3,136 |
| USD | 3.65% | 2016 | - | 1,032 | |
| | | | | \$ 728,957 | \$ 717,012 |

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

- available revolving credit lines of \$350 million and US \$400 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US \$150 million;
- pricing terms at market rates; and
- a maturity date of April 2020.

There were no changes to pricing terms or financial covenants under the facility adverse to the Company.

As at September 30, 2016, the Company has drawn US\$270,000 (December 31, 2015 - US\$220,000) on the U.S. revolving credit line and drawn \$273,000 (December 31, 2015 - \$273,000) on the Canadian revolving credit line. At September 30, 2016, the weighted average effective rate of the banking facility credit lines was 2.7% (December 31, 2015 - 2.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at September 30, 2016.

Deferred financing fees of \$4,193 (December 31, 2015 - \$2,994) have been netted against the carrying amount of the long term debt.

Future annual minimum principal repayments are as follows:

| | |
|---------------------|------------|
| Within one year | \$ 32,409 |
| One to two years | 18,910 |
| Two to three years | 6,761 |
| Three to four years | 630,194 |
| Thereafter | 40,683 |
| | \$ 728,957 |

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11. INCOME TAXES

The components of income tax expense are as follows:

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|--|--|--|---|---|
| Current income tax expense | \$ (7,011) | \$ (8,944) | \$ (31,653) | \$ (40,315) |
| Deferred income tax recovery (expense) | (2,308) | 4,857 | 198 | 16,247 |
| Total income tax expense | \$ (9,319) | \$ (4,087) | \$ (31,455) | \$ (24,068) |

12. CAPITAL STOCK

| Common shares outstanding: | Number | Amount |
|-----------------------------|------------|------------|
| Balance, December 31, 2014 | 84,925,083 | \$ 694,198 |
| Exercise of stock options | 1,401,250 | 14,564 |
| Balance, September 30, 2015 | 86,326,333 | \$ 708,762 |
| Exercise of stock options | 48,334 | 634 |
| Balance, December 31, 2015 | 86,374,667 | \$ 709,396 |
| Exercise of stock options | 10,000 | 101 |
| Balance, September 30, 2016 | 86,384,667 | \$ 709,497 |

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:

| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|------------------------------------|---|---------------------------------------|---|---------------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, beginning of period | 4,340,617 | \$ 12.38 | 5,645,202 | \$ 11.13 |
| Granted during the period | - | - | 150,000 | 13.87 |
| Exercised during the period | (10,000) | 7.20 | (1,401,250) | 7.61 |
| Cancelled during the period | (1,000,000) | 16.15 | - | - |
| Balance, end of period | 3,330,617 | \$ 11.26 | 4,393,952 | \$ 12.35 |
| Options exercisable, end of period | 3,080,617 | \$ 11.21 | 4,018,952 | \$ 12.38 |

The following is a summary of the issued and outstanding common share purchase options as at September 30, 2016:

| Range of exercise price per share | Number outstanding | Date of grant | Expiry |
|-----------------------------------|-----------------------|---------------|-------------|
| \$6.00 - 8.99 | 1,139,868 | 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 | 790,000 | 2007 | 2017 |
| Total share purchase options | 3,330,617 | | |

For the three and nine months ended September 30, 2016, the Company expensed \$84 (three months ended September 30, 2015 - \$202) and \$250 (nine months ended September 30, 2015 - \$1,180), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

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Deferred Share Unit Plan

The details of the Company's DSUs described in Note 1 (d) are as follows:

| | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|
| Units outstanding, beginning of period | - | - |
| Units granted during the period | 31,011 | - |
| Units settled during the period | - | - |
| Units for dividends earned during the period | 106 | - |
| Units outstanding, end of period | 31,117 | - |
| Weighted average fair value per unit on date of grant | \$ 9.67 | \$ - |

The 31,117 DSUs granted during the period were granted to non-executive directors and are not subject to vesting conditions. At September 30, 2016, the intrinsic value of the DSUs amounted to \$254. DSU compensation expense of \$254 was recognized for nine months ended September 30, 2016.

13. EARNINGS PER SHARE

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

| | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | |
|--------------------------------|--|----------------------------|--|----------------------------|
| | Weighted average number of shares | Per common share amount | Weighted average number of shares | Per common share amount |
| Basic | 86,384,667 | \$ 0.34 | 86,202,806 | \$ 0.18 |
| Effect of dilutive securities: | | | | |
| Stock options | 122,643 | - | 564,701 | - |
| Diluted | 86,507,310 | \$ 0.34 | 86,767,507 | \$ 0.18 |

| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|--------------------------------|--|----------------------------|--|----------------------------|
| | Weighted average number of shares | Per common share amount | Weighted average number of shares | Per common share amount |
| Basic | 86,384,557 | \$ 0.71 | 85,700,123 | \$ 0.93 |
| Effect of dilutive securities: | | | | |
| Stock options | 185,198 | - | 564,869 | (0.01) |
| Diluted | 86,569,755 | \$ 0.71 | 86,264,992 | \$ 0.92 |

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

For the three months ended September 30, 2016, 2,332,450 options (three months ended September 30, 2015, – 1,940,000) and for the nine months ended September 30, 2016, 2,090,749 options (nine months ended September 30, 2015, – 2,057,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

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14. OTHER FINANCE INCOME (EXPENSE)

| | | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|----------------------------------|----|--|--|---|---|
| Net foreign exchange gain (loss) | \$ | 676 | \$ 777 | \$ (2,722) | 3,999 |
| Other income, net | | 94 | 30 | 152 | 60 |
| Other finance income (expense) | \$ | 770 | \$ 807 | \$ (2,570) | 4,059 |

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, 2015. The Company uses segment operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

| | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | |
|-------------------|---------------------------------------|------------------|---------------------------------------|------------------|
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | \$ 181,893 | | \$ 195,572 | |
| USA | 359,010 | | 368,066 | |
| Mexico | 194,021 | | 181,396 | |
| | \$ 734,924 | \$ 39,057 | \$ 745,034 | \$ 36,715 |
| Europe | | | | |
| Germany | 97,717 | | 118,580 | |
| Spain | 41,849 | | 34,162 | |
| Slovakia | 12,514 | | 11,240 | |
| | 152,080 | 6,842 | 163,982 | (8,588) |
| Rest of the World | 27,721 | (2,505) | 20,864 | (3,290) |
| | \$ 914,725 | \$ 43,394 | \$ 929,880 | \$ 24,837 |
| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
| | Sales | Operating Income | Sales | Operating Income |
| North America | | | | |
| Canada | \$ 605,100 | | \$ 607,063 | |
| USA | 1,191,230 | | 1,086,773 | |
| Mexico | 612,531 | | 563,020 | |
| | \$ 2,408,861 | \$ 93,024 | \$ 2,256,856 | \$ 118,999 |
| Europe | | | | |
| Germany | 313,723 | | 385,196 | |
| Spain | 128,919 | | 97,629 | |
| Slovakia | 41,671 | | 34,520 | |
| | 484,313 | 25,362 | 517,345 | 7,461 |
| Rest of the World | 84,826 | (4,918) | 57,256 | (7,675) |
| | \$ 2,978,000 | \$ 113,468 | \$ 2,831,457 | \$ 118,785 |

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

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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:

| | September 30, 2016 | | | |
|---|--------------------|-----------|----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 47,568 | \$ 47,568 | \$ - | \$ - |
| Foreign exchange forward contracts (note 8) | \$ (144) | \$ - | \$ (144) | \$ - |

| | December 31, 2015 | | | |
|---|-------------------|-----------|----------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 28,899 | \$ 28,899 | \$ - | \$ - |
| Foreign exchange forward contracts (note 8) | \$ (134) | \$ - | \$ (134) | \$ - |

Fair values versus carrying amounts

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

| September 30, 2016 | Fair value through profit or loss | Loans and receivables | Amortized cost | Carrying amount | Fair value |
|---|-----------------------------------|-----------------------|-----------------------|---------------------|---------------------|
| FINANCIAL ASSETS: | | | | | |
| Trade and other receivables | \$ - | \$ 626,673 | \$ - | \$ 626,673 | \$ 626,673 |
| | | 626,673 | - | 626,673 | 626,673 |
| FINANCIAL LIABILITIES: | | | | | |
| Trade and other payables | - | - | (714,974) | (714,974) | (714,974) |
| Long-term debt | - | - | (728,957) | (728,957) | (728,957) |
| Foreign exchange forward contracts | (144) | - | - | (144) | (144) |
| | (144) | - | (1,443,931) | (1,444,075) | (1,444,075) |
| Net financial assets (liabilities) | \$ (144) | \$ 626,673 | \$ (1,443,931) | \$ (817,402) | \$ (817,402) |

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| December 31, 2015 | Fair value through profit or loss | Loans and receivables | Amortized cost | Carrying amount | Fair value |
|---|-----------------------------------|-----------------------|-----------------------|---------------------|---------------------|
| FINANCIAL ASSETS: | | | | | |
| Trade and other receivables | \$ - | \$ 586,024 | \$ - | \$ 586,024 | \$ 586,024 |
| | | 586,024 | - | 586,024 | 586,024 |
| FINANCIAL LIABILITIES: | | | | | |
| 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) |
| Net financial assets (liabilities) | \$ (134) | \$ 586,024 | \$ (1,459,974) | \$ (874,084) | \$ (874,084) |

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 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 91% (December 31, 2015 - 88%) 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 September 30, 2016 are part of the normal payment pattern within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

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

| | September 30, 2016 | December 31, 2015 |
|----------------------|--------------------|-------------------|
| 0-60 days | \$ 584,607 | \$ 515,741 |
| 61-90 days | 11,866 | 22,729 |
| Greater than 90 days | 17,153 | 29,234 |
| | \$ 613,626 | \$ 567,704 |

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At September 30, 2016, the Company had cash of \$47,568 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.

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

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

| | Carrying amount | |
|---------------------------|--------------------|-------------------|
| | September 30, 2016 | December 31, 2015 |
| Variable rate instruments | \$ 623,278 | \$ 574,818 |
| Fixed rate instruments | 105,679 | 142,194 |
| | \$ 728,957 | \$ 717,012 |

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,585 (three months ended September 30, 2015 - \$1,442) on the Company's interim consolidated financial results for the three months ended September 30, 2016 and \$4,668 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 - \$4,316).

(d) Currency risk

Currency risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company undertakes sales and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At September 30, 2016, 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 | \$ 11,240 | 0.8897 | 1 |
| Buy Mexican Peso | \$ 7,849 | 19.1103 | 3 |

| Currency | Amount of U.S. dollars | Weighted average exchange rate of Canadian dollars | Maximum period in months |
|-----------------------|------------------------|--|--------------------------|
| Sell Euro | \$ 5,620 | 0.8898 | 1 |
| Sell Canadian Dollars | \$ 35,000 | 1.3097 | 3 |

The aggregate value of these forward contracts as at September 30, 2016 was a pre-tax loss of \$144 and was recorded in trade and other payables (December 31, 2015 - loss of \$134 and was recorded in trade and other payables).

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

| September 30, 2016 | USD | | EURO | | PESO | | BRL | | CNY | |
|-----------------------------|------------|-----------|-------------|----------|-------------|-----------|------------|----------|------------|----------|
| Trade and other receivables | \$ | 330,546 | € | 69,493 | \$ | 34,379 | R\$ | 18,704 | ¥ | 140,862 |
| Trade and other payables | | (337,486) | | (81,347) | | (108,275) | | (23,306) | | (81,387) |
| Long-term debt | | (305,454) | | (40,223) | | - | | (529) | | - |
| | \$ | (312,394) | € | (52,077) | \$ | (73,896) | R\$ | (5,131) | ¥ | 59,475 |

| 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 |

The following summary illustrates the fluctuations in the exchange rates applied during the three and nine months ended September 30, 2016 and 2015:

| | Average rate | | Average rate | | Closing rate | |
|------|--|--|---|---|-------------------------------|------------------------------|
| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | September 30, 2016 | December 31, 2015 |
| USD | 1.2965 | 1.2785 | 1.3290 | 1.2404 | 1.3117 | 1.3840 |
| EURO | 1.4491 | 1.4224 | 1.4777 | 1.3967 | 1.4736 | 1.5029 |
| PESO | 0.0698 | 0.0800 | 0.0736 | 0.0810 | 0.0676 | 0.0805 |
| BRL | 0.3944 | 0.3902 | 0.3687 | 0.4131 | 0.4043 | 0.3494 |
| CNY | 0.1953 | 0.2046 | 0.2027 | 0.1991 | 0.1967 | 0.2131 |

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10% strengthening of the Canadian dollar against the following currencies at September 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and nine months ended September 30, 2016 by the amounts shown below, assuming all other variables remain constant:

| | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|------|--|---------|--|---------|---|---------|---|---------|
| USD | \$ | (2,054) | \$ | (1,640) | \$ | (3,377) | \$ | (5,346) |
| EURO | | (830) | | 177 | | (2,411) | | (1,391) |
| BRL | | 149 | | 167 | | 521 | | 361 |
| CNY | | 135 | | 296 | | 186 | | 632 |
| | \$ | (2,600) | \$ | (1,000) | \$ | (5,081) | \$ | (5,744) |

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

(e) 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.

Martinrea International Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

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 \$78,500 (BRL \$198,163) including interest and penalties to September 30, 2016 (December 31, 2015 - \$62,157 or BRL \$177,898). 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 \$54,239 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.

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 September 30, 2016, the amount of the program financing was \$90,624 (December 31, 2015 - \$85,514) 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 2016 year-to-date or 2015. 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.