

**MARTINREA INTERNATIONAL INC.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL REPORT**

The accompanying unaudited interim financial report of Martinrea International Inc. (the “Company”) has been prepared by and is the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of this interim financial report in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial report by an entity’s auditor.

(Signed) “*Fred Di Tosto*”  
Fred Di Tosto  
Chief Financial Officer

Date: May 15, 2014



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

**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

# Martinrea International Inc.

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**Martinrea International Inc.**  
Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	March 31, 2014	December 31, 2013
<b>ASSETS</b>			
Cash and cash equivalents		\$ 43,185	\$ 56,224
Trade and other receivables	4	654,971	541,598
Inventories	5	329,961	302,810
Prepaid expenses and deposits		14,726	13,128
Income taxes recoverable		3,998	3,727
<b>TOTAL CURRENT ASSETS</b>		<b>1,046,841</b>	<b>917,487</b>
Property, plant and equipment	6	887,202	847,548
Deferred income tax assets		110,270	100,156
Intangible assets	7	62,754	59,640
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,060,226</b>	<b>1,007,344</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,107,067</b>	<b>\$ 1,924,831</b>
<b>LIABILITIES</b>			
Trade and other payables	8	\$ 686,950	\$ 597,591
Provisions	9	5,230	6,362
Income taxes payable		20,485	22,530
Current portion of long-term debt	10	51,204	37,276
<b>TOTAL CURRENT LIABILITIES</b>		<b>763,869</b>	<b>663,759</b>
Long-term debt	10	455,809	434,501
Pension and other post-retirement benefits		51,139	45,270
Deferred income tax liabilities		76,108	73,051
Other financial liability	3	185,664	154,239
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>768,720</b>	<b>707,061</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 1,532,589</b>	<b>\$ 1,370,820</b>
<b>EQUITY</b>			
Capital stock	12	689,975	689,975
Contributed surplus		44,963	44,853
Other equity	3	(185,664)	(154,239)
Accumulated other comprehensive income		52,452	26,085
Accumulated deficit		(131,415)	(142,376)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>470,311</b>	<b>464,298</b>
Non-controlling interest		104,167	89,713
<b>TOTAL EQUITY</b>		<b>574,478</b>	<b>554,011</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,107,067</b>	<b>\$ 1,924,831</b>

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Suleiman Rashid" Director

**Martinrea International Inc.**  
**Interim Condensed Consolidated Statements of Operations**

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

	Note	Three months ended March 31, 2014	Three months ended March 31, 2013
<b>SALES</b>		\$ 864,493	\$ 769,122
Cost of sales (excluding depreciation of property, plant and equipment)		(752,883)	(672,332)
Depreciation of property, plant and equipment (production)		(24,131)	(21,075)
Total cost of sales		(777,014)	(693,407)
<b>GROSS MARGIN</b>		87,479	75,715
Research and development costs		(4,642)	(4,168)
Selling, general and administrative		(43,331)	(34,803)
Depreciation of property, plant and equipment (non-production)		(1,464)	(1,474)
Amortization of customer contracts and relationships		(343)	(486)
Loss on disposal of property, plant and equipment		(140)	(111)
<b>OPERATING INCOME</b>		37,559	34,673
Finance expense		(5,179)	(4,683)
Other finance income (expense)		(222)	983
<b>INCOME BEFORE INCOME TAXES</b>		32,158	30,973
Income tax expense	11	(5,499)	(7,468)
<b>NET INCOME FOR THE PERIOD</b>		\$ 26,659	\$ 23,505
Non-controlling interest		(9,968)	(3,617)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 16,691	\$ 19,888
Basic earnings per share	13	\$ 0.20	\$ 0.24
Diluted earnings per share	13	\$ 0.20	\$ 0.24

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 March 31, 2014	Three months ended March 31, 2013
<b>NET INCOME FOR THE PERIOD</b>	\$ 26,659	\$ 23,505
<b>Other comprehensive income, net of tax:</b>		
<b>Items that may be reclassified to net income</b>		
Foreign currency translation differences for foreign operations	30,853	12,470
<b>Items that will not be reclassified to net income</b>		
Actuarial gains (losses) from the remeasurement of defined benefit plans	(3,195)	1,111
<b>Other comprehensive income, net of tax</b>	27,658	13,581
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 54,317	\$ 37,086
<b>Attributable to:</b>		
Equity holders of the Company	39,863	32,086
Non-controlling interest	14,454	5,000
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 54,317	\$ 37,086

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)

<b>Equity attributable to equity holders of the Company</b>								
	Capital stock	Contributed surplus	Other equity	Cumulative translation account	Accumulated deficit	Total	Non- controlling interest	Total equity
Balance at December 31, 2012	\$ 675,606	\$ 46,897	\$ (87,100)	\$ (22,001)	\$ (155,721)	\$ 457,681	\$ 66,240	\$ 523,921
Net income for the period	-	-	-	-	19,888	19,888	3,617	23,505
Compensation expense related to stock options	-	315	-	-	-	315	-	315
Change in fair value of put option granted to non-controlling interest	-	-	(3,963)	-	-	(3,963)	-	(3,963)
Purchase of non-controlling interest (note 2)	-	-	-	-	(2,880)	(2,880)	(1,928)	(4,808)
Exercise of employee stock options	9,438	(2,321)	-	-	-	7,117	-	7,117
<u>Other comprehensive income,</u> <u>net of tax</u>								
Actuarial gains from the remeasurement of defined benefit plans	-	-	-	-	1,111	1,111	-	1,111
Foreign currency translation differences	-	-	-	11,087	-	11,087	1,383	12,470
Balance at March 31, 2013	685,044	44,891	(91,063)	(10,914)	(137,602)	490,356	69,312	559,668
Net income (loss) for the period	-	-	-	-	(2,938)	(2,938)	17,362	14,424
Compensation expense related to stock options	-	1,297	-	-	-	1,297	-	1,297
Change in fair value of put option granted to non-controlling interest	-	-	(63,176)	-	-	(63,176)	-	(63,176)
Dividends (\$0.09 per share)	-	-	-	-	(7,588)	(7,588)	-	(7,588)
Exercise of employee stock options	4,931	(1,335)	-	-	-	3,596	-	3,596
<u>Other comprehensive income,</u> <u>net of tax</u>								
Actuarial gains from the remeasurement of defined benefit plans	-	-	-	-	5,752	5,752	-	5,752
Foreign currency translation differences	-	-	-	36,999	-	36,999	3,039	40,038
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	-	-	-	-	16,691	16,691	9,968	26,659
Compensation expense related to stock options	-	110	-	-	-	110	-	110
Dividends (\$0.03 per share)	-	-	-	-	(2,535)	(2,535)	-	(2,535)
Change in fair value of put option granted to non-controlling interest	-	-	(31,425)	-	-	(31,425)	-	(31,425)
<u>Other comprehensive income,</u> <u>net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(3,195)	(3,195)	-	(3,195)
Foreign currency translation differences	-	-	-	26,367	-	26,367	4,486	30,853
Balance at March 31, 2014	\$ 689,975	\$ 44,963	\$ (185,664)	\$ 52,452	\$ (131,415)	\$ 470,311	\$ 104,167	\$ 574,478

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 March 31, 2014	Three months ended March 31, 2013
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES:</b>		
Net Income for the period	\$ 26,659	\$ 23,505
Adjustments for:		
Depreciation of property, plant and equipment	25,595	22,549
Amortization of customer contracts and relationships	343	486
Amortization of development costs	2,104	1,545
Accretion of interest on promissory note	-	(30)
Unrealized losses (gains) on foreign exchange forward contracts	2,535	(228)
Finance costs	5,179	4,683
Income tax expense	5,499	7,468
Loss on disposal of property, plant and equipment	140	111
Stock-based compensation	110	315
Pension and other post-retirement benefits expense	1,167	1,202
Contributions made to pension and other post-retirement benefits	(1,028)	(2,468)
	68,303	59,138
Changes in non-cash working capital items:		
Trade and other receivables	(95,491)	(88,525)
Inventories	(16,423)	2,843
Prepaid expenses and deposits	(1,111)	3,480
Trade, other payables and provisions	69,431	36,927
	24,709	13,863
Interest paid (excluding capitalized interest)	(4,712)	(3,731)
Income taxes paid	(12,242)	(4,741)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 7,755</b>	<b>\$ 5,391</b>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(2,535)	-
Increase in long-term debt	36,953	51,498
Repayment of long-term debt	(10,191)	(5,856)
Exercise of employee stock options	-	7,117
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ 24,227</b>	<b>\$ 52,759</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment*	(42,823)	(56,705)
Capitalized development costs	(3,411)	(3,122)
Proceeds on disposal of property, plant and equipment	593	28
Purchase of non-controlling interest (note 2)	-	(4,808)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (45,641)</b>	<b>\$ (64,607)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	620	(1,351)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,039)</b>	<b>(7,808)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>56,224</b>	<b>29,422</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 43,185</b>	<b>\$ 21,614</b>

\* As at March 31, 2014, \$7,444 (December 31, 2013 - \$ 13,216) 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)

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Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. 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, 2013, except as outlined in note 1(d).

#### (a) 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, 2013.

#### (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, 2014, in accordance with the transitional provisions outlined in the respective standards.

##### *IAS 36, Impairment of assets*

Effective January 1, 2014, the Company adopted amendments made to IAS 36, Impairment of assets. These amendments require additional disclosures when the recoverable amount is determined based on fair value less cost of disposal including the following:

- Level of fair value hierarchy within which the fair value measurement is categorised
- Valuation techniques used to measure fair value less costs of disposal
- Key assumptions used in the fair value measurements categorised within 'Level 2' and 'Level 3' of the fair value hierarchy, and
- Discount rate when applicable.

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.

##### *IAS 32, Financial Instruments: Presentation*

Effective January 1, 2014, the Company adopted amendments made to IAS 32, Financial Instruments: Presentation which provide clarification on when an entity has a legally enforceable right to off-set financial assets and financial liabilities.

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)

### IFRIC 21, Levies

Effective January 1, 2014, the Company adopted IFRIC 21, Levies which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies (i) the liability is recognized progressively if the obligating event occurs over a period of time, and (ii) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The adoption of this standard 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 January 14, 2013, the Company, through its subsidiary Martinrea Honsel Holdings B.V., closed an agreement to purchase the 35% non-controlling interest of the facility in Monte Mor, Brazil from Daimler AG ("Daimler") for a total cost of \$4,808 (€ 3,712). The transaction resulted in the carrying amount of Daimler's share of equity in the facility being reversed from non-controlling interest. The \$2,880 difference between the amount of the non-controlling interest adjustment and the consideration paid was recognized in accumulated deficit.

## 3. OTHER FINANCIAL LIABILITY

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

As part of the transaction the Company granted Anchorage a put option which, if exercised, will require the Company to purchase Anchorage's 45% interest in Martinrea Honsel. The put option can be exercised beginning on April 1, 2015 and ends on October 1, 2017. The Company is required to purchase the shares held by Anchorage no later than 90 days after the exercise of the put option. The put option provides a formula for determining the purchase price of the shares, which is designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provides an arbitration mechanism in the event that the two parties are unable to agree on the ultimate price.

The Company determined the fair value of the liability relating to the put option to be \$185,664 as at March 31, 2014 (December 31, 2013 - \$154,239). The fair value was determined by applying the contractual formula for determining the purchase price of the shares to projected earnings at the time the put option becomes exercisable and discounting it back to a present value using a rate commensurate with the risks inherent in the ownership interest. The put option liability is included in other financial liabilities on the Company's consolidated balance sheet with an offsetting adjustment to other equity. The fair value of the liability is sensitive to changes in projected earnings, which could result in a higher or lower fair value measurement. Changes in the carrying amount of the liability, including accretion and foreign exchange, are recognized within other equity.

## 4. TRADE AND OTHER RECEIVABLES

	March 31, 2014		December 31, 2013	
Trade receivables	\$	620,350	\$	498,261
VAT and other receivables		34,621		43,337
	\$	654,971	\$	541,598

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

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 5. INVENTORIES

	March 31, 2014	December 31, 2013
Raw materials	\$ 143,699	\$ 138,337
Work in progress	47,579	41,841
Finished goods	50,409	52,013
Tooling work in progress and other inventory	88,274	70,619
	<b>\$ 329,961</b>	<b>\$ 302,810</b>

### 6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2014			December 31, 2013		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 128,550	\$ (26,483)	\$ 102,067	\$ 124,844	\$ (24,979)	\$ 99,865
Leasehold improvements	41,720	(21,492)	20,228	40,652	(20,518)	20,134
Manufacturing equipment	1,124,590	(510,019)	614,571	1,055,258	(461,778)	593,480
Tooling and fixtures	35,730	(29,761)	5,969	33,516	(28,183)	5,333
Other assets	30,661	(16,899)	13,762	29,461	(15,811)	13,650
Construction in progress and spare parts	130,605	-	130,605	115,086	-	115,086
	<b>\$ 1,491,856</b>	<b>\$ (604,654)</b>	<b>\$ 887,202</b>	<b>\$ 1,398,817</b>	<b>\$ (551,269)</b>	<b>\$ 847,548</b>

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, 2012	\$ 94,984	\$ 19,906	\$ 486,340	\$ 9,901	\$ 13,493	\$ 107,119	\$ 731,743
Additions	263	197	7,624	-	553	180,428	189,065
Disposals	(2,051)	-	(1,571)	(652)	(35)	(133)	(4,442)
Depreciation	(3,858)	(2,989)	(83,901)	(4,912)	(3,598)	-	(99,258)
Impairment	-	-	(9,041)	(5,279)	(380)	-	(14,700)
Transfers from construction in progress and spare parts	6,505	2,229	161,255	4,491	3,355	(177,835)	-
Foreign currency translation adjustment	4,022	791	32,774	1,784	262	5,507	45,140
Net as of December 31, 2013	\$ 99,865	\$ 20,134	\$ 593,480	\$ 5,333	\$ 13,650	\$ 115,086	\$ 847,548
Additions	-	29	1,188	-	69	35,765	37,051
Disposals	(483)	-	(176)	(74)	-	-	(733)
Depreciation	(1,023)	(663)	(22,222)	(887)	(800)	-	(25,595)
Transfers from construction in progress and spare parts	653	155	21,764	1,347	355	(24,274)	-
Foreign currency translation adjustment	3,055	573	20,537	250	488	4,028	28,931
Net as of March 31, 2014	\$ 102,067	\$ 20,228	\$ 614,571	\$ 5,969	\$ 13,762	\$ 130,605	\$ 887,202

During 2013 and 2012, the Company entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At March 31, 2014, the carrying value of property, plant and equipment under such arrangements was \$42,698 (December 31, 2013 – \$43,229). The corresponding amounts owing are reflected within long-term debt (note 10).

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 7. INTANGIBLE ASSETS

	March 31, 2014			December 31, 2013		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 60,687	\$ (46,581)	\$ 14,106	\$ 59,966	\$ (45,978)	\$ 13,988
Development costs	77,464	(28,816)	48,648	71,357	(25,705)	45,652
	\$ 138,151	\$ (75,397)	\$ 62,754	\$ 131,323	\$ (71,683)	\$ 59,640

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net balance as at December 31, 2012	\$ 15,073	\$ 49,024	\$ 64,097
Additions	-	14,638	14,638
Amortization	(1,972)	(6,899)	(8,871)
Impairment	-	(14,378)	(14,378)
Foreign currency translation adjustment	887	3,267	4,154
Net balance at December 31, 2013	\$ 13,988	\$ 45,652	\$ 59,640
Additions	-	3,411	3,411
Amortization	(343)	(2,104)	(2,447)
Foreign currency translation adjustment	461	1,689	2,150
Net balance at March 31, 2014	\$ 14,106	\$ 48,648	\$ 62,754

### 8. TRADE AND OTHER PAYABLES

	March 31, 2014	December 31, 2013
Trade accounts payable and accrued liabilities	\$ 684,415	\$ 597,221
Foreign exchange forward contracts	2,535	370
	\$ 686,950	\$ 597,591

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

### 9. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Onerous Contracts (c)	Total
Balance at December 31, 2012	\$ 24,433	\$ 2,241	\$ 2,305	\$ 28,979
Net additions	-	365	-	365
Amounts used during the period	(22,154)	(801)	(1,173)	(24,128)
Foreign currency translation adjustment	1,069	(98)	175	1,146
Balance at December 31, 2013	\$ 3,348	\$ 1,707	\$ 1,307	\$ 6,362
Net additions	-	81	-	81
Amounts used during the period	(1,127)	(13)	(326)	(1,466)
Foreign currency translation adjustment	97	132	24	253
Balance at March 31, 2014	\$ 2,318	\$ 1,907	\$ 1,005	\$ 5,230

Based on estimated cash outflows, all provisions as at March 31, 2014 and December 31, 2013 are presented on the condensed consolidated balance sheet as current.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### (a) Restructuring

As part of the acquisition of Honsel, 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, 2012 relates to restructuring activities undertaken during 2012 primarily for employee related severance. No such costs were incurred during 2013 and the three months ending March 31, 2014.

### (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.

### (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 has been recorded as a provision and will be recognized over time as the contracts are fulfilled or when the contracts are 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 15.

	March 31, 2014	December 31, 2013
Banking facility	\$ 342,227	\$ 310,372
Equipment loans	150,251	146,534
Loan payable to non-controlling shareholder of Martinrea Honsel	13,692	13,190
Other bank loans	843	1,681
	507,013	471,777
Current portion	(51,204)	(37,276)
	\$ 455,809	\$ 434,501

Terms and conditions of outstanding loans, in Canadian dollar equivalents, are as follows:

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	Currency	Nominal interest rate	Year of maturity	March 31, 2014 Carrying amount	December 31, 2013 Carrying amount
Banking facility	CAD	BA+2.0%	2016	\$ 276,973	\$ 276,337
	USD	LIBOR+2.0%	2016	65,254	34,035
Equipment loans	USD	4.25%	2018	51,777	45,224
	USD	4.25%	2017	22,807	23,452
	* EUR	3.37%	2016	19,966	20,816
	* USD	7.36%	2017	17,350	17,641
	* EUR	4.93%	2023	15,463	14,896
	USD	3.89%	2016	8,715	9,201
	USD	3.99%	2017	5,334	5,555
	* BRL	11.88%	2015	2,934	2,702
	USD	3.65%	2016	2,663	2,805
	USD	4.69%	2017	1,305	1,362
	CAD	Prime+0.3%	2014	740	1,333
	* BRL	5.00%	2014	423	569
	USD	3.65%	2014	273	458
	* BRL	5.00%	2020	426	409
* BRL	5.59%	2014	75	111	
Loan payable to non-controlling shareholder of Martinrea Honsel	EUR	5.00%	2014	13,692	13,190
Other bank loans	* BRL	14.00%	2015	843	1,681
				\$ 507,013	\$ 471,777

\*Represents debt in Martinrea Honsel.

The primary terms of the Company's banking facility, with a syndicate of seven banks, are as follows:

- available revolving credit lines of \$300 million and US \$100 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 2016.

As at March 31, 2014, the Company has drawn US\$59,000 (December 31, 2013 - US\$32,000) on the U.S. revolving credit line and drawn \$278,000 (December 31, 2013 - \$278,000) on the Canadian revolving credit line. At March 31, 2014, the weighted average effective rate of the banking facility credit lines was 3.3% (December 31, 2013 - 3.3%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at March 31, 2014.

Deferred financing fees of \$2,027 (December 31, 2013 - \$2,218) have been netted against the carrying value of the long term debt.

During the three months ended March 31, 2014, the Company finalized the final draw down on a five year US\$50 million equipment loan in the amount of US\$6,958 at a fixed interest rate of 4.25%.

The loan payable to the non-controlling shareholder of Martinrea Honsel formed part of a €20,000 (\$30,426) loan to Martinrea Honsel from its shareholders, including Martinrea, during 2012, of which Martinrea's portion of the loan in the amount of €11,000 (\$16,734) was funded from the Company's banking facility.

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Future annual minimum principal repayments are as follows:

Within one year	\$	51,204
One to two years		36,910
Two to three years		376,437
Three to four years		20,460
Thereafter		22,002
	\$	507,013

### 11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended March 31, 2014		Three months ended March 31, 2013	
Current income tax expense	\$	9,676	\$	8,813
Deferred income tax recovery		(4,177)		(1,345)
Total income tax expense	\$	5,499	\$	7,468

### 12. CAPITAL STOCK

	Number	Amount
<b>Common shares outstanding:</b>		
Balance, December 31, 2012	82,995,450	\$ 675,606
Exercise of stock options	980,334	9,438
Balance, March 31, 2013	83,975,784	685,044
Exercise of stock options	503,920	4,931
Balance, December 31, 2013 and March 31, 2014	84,479,704	\$ 689,975

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 0 and 4 years.

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

	Three months ended March 31, 2014		Three months ended March 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,521,915	\$ 10.68	6,921,836	\$ 9.94
Exercised during the period	-		(980,334)	7.26
Cancelled / expired during the period	-		(15,667)	10.44
Balance, end of period	5,521,915	\$ 10.68	5,925,835	\$ 10.38
Options exercisable, end of period	5,031,915	\$ 10.93	4,925,001	\$ 10.82

The following is a summary of the issued and outstanding common share purchase options as at March 31, 2014:

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Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$3.00 - 5.99	148,500	2005 & 2008	2015 & 2018
\$6.00 - 6.99	22,379	2004 - 2008	2014 - 2018
\$7.00 - 8.99	2,726,036	2004 - 2012	2014 - 2022
\$9.00 - 9.99	150,000	2008	2018
\$10.00 - 15.99	645,000	2006 - 2013	2016 - 2023
\$16.00 - 17.75	1,830,000	2007	2017
Total share purchase options	5,521,915		

For the three months ended March 31, 2014, the Company expensed \$110 (three months ended March 31, 2013 - \$315) to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

### 13. EARNINGS PER SHARE

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

	Three months ended March 31, 2014		Three months ended March 31, 2013	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	84,479,704	\$ 0.20	83,756,735	\$ 0.24
Effect of dilutive securities:				
Stock options	564,470	-	607,655	-
Diluted	85,044,174	\$ 0.20	84,364,390	\$ 0.24

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 March 31, 2014, 2,475,000 options (three months ended March 31, 2013 - 2,770,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

### 14. OPERATING SEGMENTS

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

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented on a geographic basis between North America, Europe and Rest of 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, 2013. 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:



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	Three months ended March 31, 2014		Three months March 31, 2013	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 195,517	\$	191,249	
USA	312,669		279,538	
Mexico	155,478		139,744	
	\$ 663,664	\$ 21,368	\$ 610,531	\$ 30,769
Europe				
Germany	153,514		119,214	
Spain	24,627		18,862	
Slovakia	5,512		3,735	
	\$ 183,653	\$ 17,674	\$ 141,811	\$ 4,467
Rest of World	\$ 17,176	\$ (1,483)	\$ 16,780	\$ (563)
	\$ 864,493	\$ 37,559	\$ 769,122	\$ 34,673

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

### 15. FINANCIAL INSTRUMENTS

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

#### 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 for 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:

	March 31, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 43,185	\$ 43,185	\$ -	\$ -
Foreign exchange forward contracts	\$ (2,535)	\$ -	\$ (2,535)	\$ -
Other financial liability - put option	\$ (185,664)	\$ -	\$ -	\$ (185,664)
	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 56,224	\$ 56,224	\$ -	\$ -
Foreign exchange forward contracts	\$ (370)	\$ -	\$ (370)	\$ -
Other financial liability - put option	\$ (154,239)	\$ -	\$ -	\$ (154,239)

#### 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:

# Martinrea International Inc.

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

March 31, 2014	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 654,971	\$ -	\$ 654,971	\$ 654,971
		654,971	-	654,971	654,971
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	684,415	684,415	684,415
Long-term debt	-	-	507,013	507,013	507,013
Foreign exchange forward contracts	2,535	-	-	2,535	2,535
	2,535	-	1,191,428	1,193,963	1,193,963
Net financial assets (liabilities)	\$ (2,535)	\$ 654,971	\$ (1,191,428)	\$ (538,992)	\$ (538,992)

  

December 31, 2013	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 541,598	\$ -	\$ 541,598	\$ 541,598
		541,598	-	541,598	541,598
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	597,221	597,221	597,221
Long-term debt	-	-	471,777	471,777	471,777
Foreign exchange forward contracts	370	-	-	370	370
	370	-	1,068,998	1,069,368	1,069,368
Net financial assets (liabilities)	\$ (370)	\$ 541,598	\$ (1,068,998)	\$ (527,770)	\$ (527,770)

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. The fair value of the other financial liability – put option is recorded at fair value.

### 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.

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 82% of the Company's production sales are derived from six 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 March 31, 2014 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.

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

	March 31, 2014	December 31, 2013
0-60 days	\$ 562,473	\$ 439,125
61-90 days	25,515	35,368
Greater than 90 days	32,362	23,768
	\$ 620,350	\$ 498,261

### (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 March 31, 2014, the Company had cash of \$43,185 and banking facilities available as discussed in note 10. All the Company's financial liabilities other than long term debt and other financial liabilities 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, 1 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 fluctuate by a maximum of 1.25%.

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

	Carrying amount	
	March 31, 2014	December 31, 2013
Variable rate instruments	\$ 342,967	\$ 311,705
Fixed rate instruments	164,046	160,072
	\$ 507,013	\$ 471,777

### Sensitivity analysis

An increase or decrease of 1.0% in interest rates applicable to all variable interest rate debt would, all else being equal, have an effect of \$818 (three months ended March 31, 2013 - \$745) on the Company's interim consolidated financial results for the three months ended March 31, 2014.

### (d) Currency risk

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

At March 31, 2014, 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	\$ 434	0.7252	1
Buy Canadian Dollars	\$ 52,000	1.0618	9
Buy Mexican Pesos	\$ 8,650	13.2940	2

The aggregate value of these forward contracts as at March 31, 2014 was a loss of \$2,535 and was recorded in trade and other payables (December 31, 2013 - loss of \$370 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:

<b>March 31, 2014</b>	<b>USD</b>		<b>EURO</b>		<b>PESO</b>		<b>BRL</b>		<b>CYN</b>	
Trade and other receivables	\$	388,145	€	74,493	\$	25,433	R\$	18,962	¥	36,932
Trade and other payables		(397,676)		(90,119)		(77,741)		(23,263)		(26,065)
Long-term debt		(159,583)		(32,289)		-		(9,615)		-
	\$	(169,114)	€	(47,915)	\$	(52,308)	R\$	(13,916)	¥	10,867

  

<b>December 31, 2013</b>	<b>USD</b>		<b>EURO</b>		<b>PESO</b>		<b>BRL</b>		<b>CYN</b>	
Trade and other receivables	\$	340,455	€	62,093	\$	13,988	R\$	14,729	¥	16,815
Trade and other payables		(363,579)		(84,639)		(55,903)		(23,264)		(17,111)
Long-term debt		(131,900)		(33,369)		-		(12,152)		-
	\$	(155,024)	€	(55,915)	\$	(41,915)	R\$	(20,687)	¥	(296)

The following summary illustrates the fluctuations in the exchange rates applied during the three months ended March 31, 2014 and 2013:

	<b>Average rate</b>		<b>Closing rate</b>	
	<b>Three months ended</b>	<b>Three months ended</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>March 31, 2014</b>	<b>March 31, 2013</b>		
USD	1.0882	0.9972	1.1060	1.0636
PESO	0.0825	0.0782	0.0846	0.0812
EURO	1.4863	1.3214	1.5213	1.4655
BRL	0.4590	0.4924	0.4889	0.4503
CYN	0.1792	0.1609	0.1781	0.1757

### 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 March 31, 2014 would give rise to translation risk on net income and would increase (decrease) equity, and comprehensive income for the three months ended March 31, 2014 by the amounts shown below, assuming all other variables remain constant:

	<b>Three months ended</b>	<b>Three months ended</b>
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
USD	\$ (494)	\$ (1,669)
EURO	(1,631)	(414)
BRL	117	102
CYN	88	52
	\$ (1,920)	\$ (1,929)

A weakening of the Canadian dollar against the above currencies at March 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (e) Capital risk management

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

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## Notes to the Interim Condensed Consolidated Financial Statements

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### 16. CONTINGENCIES

#### Contingencies

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

#### Tax contingency

The 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 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 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 \$66.4 million (BRL \$135.9 million) including interest and penalties to March 31, 2014 (December 31, 2013 - \$58.0 million or BRL \$128.8 million). 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. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

### 17. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's condensed consolidated balance sheet. At March 31, 2014, the amount of the program financing was \$71,358 (December 31, 2013 - \$57,591) 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 2014 or 2013. 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.