



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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015**

# Martinrea International Inc.

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

(in thousands of Canadian dollars) (unaudited)

	Note	September 30, 2015	December 31, 2014
<b>ASSETS</b>			
Cash and cash equivalents		\$ 7,896	\$ 52,401
Trade and other receivables	3	628,332	520,844
Inventories	4	350,574	313,436
Prepaid expenses and deposits		21,662	10,039
Income taxes recoverable		10,990	8,321
<b>TOTAL CURRENT ASSETS</b>		<b>1,019,454</b>	<b>905,041</b>
Property, plant and equipment	6	1,119,359	984,681
Deferred income tax assets		179,678	153,367
Intangible assets	7	81,337	71,806
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,380,374</b>	<b>1,209,854</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,399,828</b>	<b>\$ 2,114,895</b>
<b>LIABILITIES</b>			
Trade and other payables	8	\$ 730,929	\$ 645,862
Provisions	9	16,761	5,504
Income taxes payable		30,373	31,140
Current portion of long-term debt	10	43,103	37,526
<b>TOTAL CURRENT LIABILITIES</b>		<b>821,166</b>	<b>720,032</b>
Long-term debt	10	677,516	654,916
Pension and other post-retirement benefits		67,248	62,557
Deferred income tax liabilities		104,078	101,644
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>848,842</b>	<b>819,117</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 1,670,008</b>	<b>\$ 1,539,149</b>
<b>EQUITY</b>			
Capital stock	12	\$ 708,762	\$ 694,198
Contributed surplus		42,621	45,347
Accumulated other comprehensive income		126,425	55,927
Accumulated deficit		(147,790)	(219,480)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>730,018</b>	<b>575,992</b>
Non-controlling interest		(198)	(246)
<b>TOTAL EQUITY</b>		<b>729,820</b>	<b>575,746</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,399,828</b>	<b>\$ 2,114,895</b>

**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, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>SALES</b>		\$ 929,880	\$ 859,456	\$ 2,831,457	\$ 2,654,864
Cost of sales (excluding depreciation of property, plant and equipment)		(803,477)	(755,409)	(2,447,861)	(2,318,058)
Depreciation of property, plant and equipment (production)		(30,018)	(25,971)	(85,193)	(75,388)
Total cost of sales		(833,495)	(781,380)	(2,533,054)	(2,393,446)
<b>GROSS MARGIN</b>		96,385	78,076	298,403	261,418
Research and development costs		(5,911)	(4,427)	(16,785)	(13,944)
Selling, general and administrative		(49,300)	(39,462)	(142,583)	(128,387)
Depreciation of property, plant and equipment (non-production)		(1,861)	(1,764)	(5,403)	(4,942)
Amortization of customer contracts and relationships		(495)	(904)	(1,611)	(1,815)
Restructuring costs	9	(13,619)	-	(13,619)	-
Loss on sale of assets and liabilities held for sale	5	(370)	-	(370)	-
Gain/(loss) on disposal of property, plant and equipment		8	36	753	(87)
<b>OPERATING INCOME</b>		24,837	31,555	118,785	112,243
Finance costs		(6,325)	(5,910)	(19,429)	(16,419)
Other finance income	14	807	882	4,059	891
<b>INCOME BEFORE INCOME TAXES</b>		19,319	26,527	103,415	96,715
Income tax expense	11	(4,087)	(5,322)	(24,068)	(19,225)
<b>NET INCOME FOR THE PERIOD</b>		\$ 15,232	\$ 21,205	\$ 79,347	\$ 77,490
Non-controlling interest		237	(1,821)	(48)	(18,107)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 15,469	\$ 19,384	\$ 79,299	\$ 59,383
Basic earnings per share	13	\$ 0.18	\$ 0.23	\$ 0.93	\$ 0.70
Diluted earnings per share	13	\$ 0.18	\$ 0.23	\$ 0.92	\$ 0.69

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>NET INCOME FOR THE PERIOD</b>	\$ 15,232	\$ 21,205	\$ 79,347	\$ 77,490
<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	43,758	22,467	70,498	18,579
<b>Items that will not be reclassified to net income</b>				
Actuarial gains (losses) from the remeasurement of defined benefit plans	(1,104)	(1,630)	136	(5,560)
<b>Other comprehensive income, net of tax</b>	42,654	20,837	70,634	13,019
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 57,886	\$ 42,042	\$ 149,981	\$ 90,509
<b>Attributable to:</b>				
Equity holders of the Company	58,123	38,789	149,933	72,004
Non-controlling interest	(237)	3,253	48	18,505
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	\$ 57,886	\$ 42,042	\$ 149,981	\$ 90,509

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, 2013	\$ 689,975	\$ 44,853	\$ (154,239)	\$ 26,085	\$ (142,376)	\$ 464,298	\$ 89,713	\$ 554,011
Net income for the period	-	-	-	-	59,383	59,383	18,107	77,490
Compensation expense related to stock options	-	894	-	-	-	894	-	894
Change in fair value of put option granted to non-controlling interest	-	-	(81,428)	-	-	(81,428)	-	(81,428)
Purchase of non-controlling interest (note 2)	-	-	235,667	-	(127,198)	108,469	(108,469)	-
Dividends (\$0.09 per share)	-	-	-	-	(7,611)	(7,611)	-	(7,611)
Exercise of employee stock options	2,607	(781)	-	-	-	1,826	-	1,826
<u>Other comprehensive income, net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(5,560)	(5,560)	-	(5,560)
Foreign currency translation differences	-	-	-	18,181	-	18,181	398	18,579
Balance at September 30, 2014	692,582	44,966	-	44,266	(223,362)	558,452	(251)	558,201
Net income for the period	-	-	-	-	11,921	11,921	5	11,926
Compensation expense related to stock options	-	805	-	-	-	805	-	805
Dividends (\$0.03 per share)	-	-	-	-	(2,548)	(2,548)	-	(2,548)
Exercise of employee stock options	1,616	(424)	-	-	-	1,192	-	1,192
<u>Other comprehensive income, net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(5,491)	(5,491)	-	(5,491)
Foreign currency translation differences	-	-	-	11,661	-	11,661	-	11,661
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, 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

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, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES:</b>				
Net Income for the period	\$ 15,232	\$ 21,205	\$ 79,347	\$ 77,490
Adjustments for:				
Depreciation of property, plant and equipment	31,879	27,735	90,596	80,330
Amortization of customer contracts and relationships	495	904	1,611	1,815
Amortization of development costs	3,179	2,133	8,859	6,399
Unrealized losses on foreign exchange forward contracts	824	1,229	1,641	2,420
Finance costs	6,325	5,910	19,429	16,419
Income tax expense	4,087	5,322	24,068	19,225
Loss on sale of assets and liabilities held for sale (note 5)	370	-	370	-
(Gain)/loss on disposal of property, plant and equipment	(8)	(36)	(753)	87
Stock-based compensation	202	229	1,180	894
Pension and other post-retirement benefits expense	861	1,207	3,077	3,639
Contributions made to pension and other post-retirement benefits	(1,332)	(1,574)	(2,960)	(3,366)
	62,114	64,264	226,465	205,352
Changes in non-cash working capital items:				
Trade and other receivables	(20,978)	27,795	(61,875)	(34,859)
Inventories	(21,349)	(4,642)	(16,969)	(27,108)
Prepaid expenses and deposits	(4,857)	(2,833)	(10,239)	(10,012)
Trade, other payables and provisions	8,726	(12,432)	35,386	77,997
	23,656	72,152	172,768	211,370
Interest paid (excluding capitalized interest)	(6,320)	(5,738)	(17,434)	(15,323)
Income taxes paid	(4,528)	(16,522)	(49,085)	(31,551)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 12,808</b>	<b>\$ 49,892</b>	<b>\$ 106,249</b>	<b>\$ 164,496</b>
<b>FINANCING ACTIVITIES:</b>				
Increase in long-term debt	13,116	245,313	32,145	282,266
Repayment of long-term debt	(10,327)	(21,913)	(61,743)	(80,804)
Dividends paid	(2,582)	(2,534)	(7,703)	(7,605)
Exercise of employee stock options	1,869	1,467	10,658	1,826
<b>NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES</b>	<b>\$ 2,076</b>	<b>\$ 222,333</b>	<b>\$ (26,643)</b>	<b>\$ 195,683</b>
<b>INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment*	(45,404)	(48,871)	(137,109)	(143,169)
Capitalized development costs	(3,999)	(6,771)	(11,570)	(16,147)
Proceeds on sale of assets and liabilities held for sale (note 5)	20,638	-	20,638	-
Proceeds on disposal of property, plant and equipment	116	471	2,498	1,315
Purchase of non-controlling interest (note 2)	-	(235,667)	-	(235,667)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (28,649)</b>	<b>\$ (290,838)</b>	<b>\$ (125,543)</b>	<b>\$ (393,668)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	633	5,438	1,432	2,550
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,132)</b>	<b>(13,175)</b>	<b>(44,505)</b>	<b>(30,939)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>21,028</b>	<b>38,460</b>	<b>52,401</b>	<b>56,224</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 7,896</b>	<b>\$ 25,285</b>	<b>\$ 7,896</b>	<b>\$ 25,285</b>

\*As at September 30, 2015, \$5,799 (December 31, 2014 - \$13,372) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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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, 2014, except as outlined in note 1(d).

#### (b) Basis of presentation

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

#### (c) Functional and presentation currency

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

#### (d) Recently adopted accounting standards

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

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

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

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

### 2. CHANGES IN OWNERSHIP INTEREST

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

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

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



# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

difference of the consideration paid and the carrying amount of the non-controlling interest at the date of the transaction was recognized in accumulated deficit.

### 3. TRADE AND OTHER RECEIVABLES

	September 30, 2015	December 31, 2014
Trade receivables	\$ 611,139	\$ 501,962
VAT and other receivables	17,193	18,882
	<b>\$ 628,332</b>	<b>\$ 520,844</b>

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

### 4. INVENTORIES

	September 30, 2015	December 31, 2014
Raw materials	\$ 167,187	\$ 145,817
Work in progress	48,221	43,895
Finished goods	44,086	55,173
Tooling work in progress and other inventory	91,080	68,551
	<b>\$ 350,574</b>	<b>\$ 313,436</b>

### 5. 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).

### 6. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 147,286	\$ (36,103)	\$ 111,183	\$ 135,782	\$ (30,365)	\$ 105,417
Leasehold improvements	51,523	(28,685)	22,838	44,756	(24,198)	20,558
Manufacturing equipment	1,476,726	(720,233)	756,493	1,252,106	(588,639)	663,467
Tooling and fixtures	38,032	(32,075)	5,957	35,977	(29,664)	6,313
Other assets	34,232	(17,984)	16,248	28,349	(14,525)	13,824
Construction in progress and spare parts	206,640	-	206,640	175,102	-	175,102
	<b>\$ 1,954,439</b>	<b>\$ (835,080)</b>	<b>\$ 1,119,359</b>	<b>\$ 1,672,072</b>	<b>\$ (687,391)</b>	<b>\$ 984,681</b>

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2013	\$ 99,865	\$ 20,134	\$ 593,480	\$ 5,333	\$ 13,650	\$ 115,086	\$ 847,548
Additions	1,436	156	3,957	-	321	197,931	203,801
Disposals	(828)	-	(697)	(284)	(84)	(75)	(1,968)
Depreciation	(4,142)	(3,290)	(96,511)	(3,343)	(3,497)	-	(110,783)
Transfers from construction in progress and spare parts	3,814	2,505	128,252	4,314	3,022	(141,907)	-
Foreign currency translation adjustment	5,272	1,053	34,986	293	412	4,067	46,083
Net as of December 31, 2014	\$ 105,417	\$ 20,558	\$ 663,467	\$ 6,313	\$ 13,824	\$ 175,102	\$ 984,681
Additions	-	457	4,643	-	901	123,535	129,536
Sale of assets held for sale (note 5)	(1,165)	-	(3,552)	(955)	(183)	-	(5,855)
Disposals	-	-	(1,486)	(157)	(23)	(79)	(1,745)
Depreciation	(2,791)	(2,835)	(80,682)	(1,715)	(2,573)	-	(90,596)
Transfers from construction in progress and spare parts	194	2,836	104,157	1,863	3,059	(112,109)	-
Foreign currency translation adjustment	9,528	1,822	69,946	608	1,243	20,191	103,338
Net as of September 30, 2015	\$ 111,183	\$ 22,838	\$ 756,493	\$ 5,957	\$ 16,248	\$ 206,640	\$ 1,119,359

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At September 30, 2015, the carrying value of property, plant and equipment under such arrangements was \$33,810 (December 31, 2014 – \$35,736). The corresponding amounts owing are reflected within long-term debt (note 10).

### 7. INTANGIBLE ASSETS

	September 30, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 62,019	\$ (50,961)	\$ 11,058	\$ 60,644	\$ (48,848)	\$ 11,796
Development costs	122,240	(51,961)	70,279	97,261	(37,251)	60,010
	\$ 184,259	\$ (102,922)	\$ 81,337	\$ 157,905	\$ (86,099)	\$ 71,806

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net balance at December 31, 2013	\$ 13,988	\$ 45,652	\$ 59,640
Additions	-	20,476	20,476
Amortization	(2,485)	(9,033)	(11,518)
Foreign currency translation adjustment	293	2,915	3,208
Net balance at December 31, 2014	\$ 11,796	\$ 60,010	\$ 71,806
Additions	-	11,570	11,570
Amortization	(1,611)	(8,859)	(10,470)
Foreign currency translation adjustment	873	7,558	8,431
Net balance at September 30, 2015	\$ 11,058	\$ 70,279	\$ 81,337

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

### 8. TRADE AND OTHER PAYABLES

	September 30, 2015	December 31, 2014
Trade accounts payable and accrued liabilities	\$ 729,288	\$ 645,853
Foreign exchange forward contracts (note 16(d))	1,641	9
	\$ 730,929	\$ 645,862

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

### 9. PROVISIONS

	Restructuring (a)	Claims and Litigations (b)	Onerous Contracts (c)	Total
Net as of December 31, 2013	\$ 3,348	\$ 1,707	\$ 1,307	\$ 6,362
Net additions	3,542	546	-	4,088
Amounts used during the period	(3,102)	(450)	(1,291)	(4,843)
Foreign currency translation adjustment	(36)	(51)	(16)	(103)
Net as of December 31, 2014	\$ 3,752	\$ 1,752	\$ -	\$ 5,504
Net additions	13,619	1,246	-	14,865
Amounts used during the period	(2,807)	(1,048)	-	(3,855)
Foreign currency translation adjustment	533	(286)	-	247
Net as of September 30, 2015	\$ 15,097	\$ 1,664	\$ -	\$ 16,761

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

#### (a) Restructuring

As part of the acquisition of Honsel in 2011 as described in note 2, a certain level of restructuring was contemplated, in particular, at the Company's German facility in Meschede. The restructuring accrual as at December 31, 2013 and \$1,054 of the accrual as at December 31, 2014 relates to restructuring activities undertaken in Honsel primarily for employee related severance. Additional restructuring costs in Meschede, Germany in the form of employee related severance of \$13,619 (€9,674) were incurred during the third quarter of 2015.

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

#### (b) Claims and litigation

In the normal course of business, the Company may be involved in disputes with its suppliers, former employees or other third parties. Where the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

#### (c) Onerous contracts

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

### 10. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 16.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

	September 30, 2015	December 31, 2014
Banking facility	\$ 590,370	\$ 547,090
Equipment loans	130,249	145,109
Other bank loans	-	243
	720,619	692,442
Current portion	(43,103)	(37,526)
	\$ 677,516	\$ 654,916

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

	Currency	Nominal interest rate	Year of maturity	September 30, 2015 Carrying amount	December 31, 2014 Carrying amount
Banking facility	CAD	BA+1.5%	2018	\$ 270,090	\$ 274,466
	USD	LIBOR+1.5%	2018	320,280	272,624
Equipment loans	USD	4.25%	2018	44,590	46,742
	EUR	3.06%	2024	16,143	15,195
	USD	4.25%	2017	15,649	18,846
	EUR	4.93%	2023	15,390	14,735
	USD	7.36%	2017	13,244	14,948
	EUR	3.37%	2017	9,633	13,806
	EUR	3.35%	2019	5,718	5,615
	USD	3.89%	2016	4,125	6,405
	USD	3.99%	2017	3,120	4,176
	USD	3.65%	2016	1,321	1,982
	USD	4.69%	2017	741	1,013
	EUR	0.26%	2025	349	-
	BRL	5.00%	2020	226	336
BRL	11.88%	2015	-	1,310	
Other bank loans	BRL	14.00%	2015	-	243
				\$ 720,619	\$ 692,442

On August 6, 2014, the Company's banking facility was amended to increase the total available revolving credit lines under the facility and add two new banks to the lending syndicate. The increase in credit lines facilitated the purchase of the 45% minority interest in Martinrea Honsel as described in note 2. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

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

As at September 30, 2015, the Company has drawn US\$240,000 (December 31, 2014 - US\$235,000) on the U.S. revolving credit line and drawn \$273,000 (December 31, 2014 - \$278,000) on the Canadian revolving credit line. At September 30, 2015, the weighted average effective rate of the banking facility credit lines was 2.9% (December 31, 2014 - 3.3%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at September 30, 2015.

Deferred financing fees of \$3,275 (December 31, 2014 - \$4,155) have been netted against the carrying amount of the long-term debt.

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## Notes to the Interim Condensed Consolidated Financial Statements

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Future annual minimum principal repayments are as follows:

Within one year	\$	43,103
One to two years		32,214
Two to three years		611,995
Three to four years		9,641
Thereafter		23,666
	\$	720,619

### 11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Current income tax expense	\$ (8,944) \$	(12,361) \$	(40,315) \$	(33,068)
Deferred income tax recovery	4,857	7,039	16,247	13,843
Total income tax expense	\$ (4,087) \$	(5,322) \$	(24,068) \$	(19,225)

### 12. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance, December 31, 2013	84,479,704	\$ 689,975
Exercise of stock options	244,079	2,607
Balance, September 30, 2014	84,723,783	\$ 692,582
Exercise of stock options	201,300	1,616
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

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, 2015		Nine months ended September 30, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,645,202	\$ 11.13	5,521,915	\$ 10.68
Granted during the period	150,000	13.87	192,000	11.92
Exercised during the period	(1,401,250)	7.61	(244,079)	7.51
Cancelled during the period	-	-	(123,334)	11.25
Balance, end of period	4,393,952	\$ 12.35	5,346,502	\$ 10.86
Options exercisable, end of period	4,018,952	\$ 12.38	4,944,002	\$ 11.07

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

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Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$6.00 - 8.99	1,168,202	2008 - 2012	2018 - 2022
\$9.00 - 9.99	100,000	2008	2018
\$10.00 - 15.99	1,335,750	2006 - 2015	2016 - 2025
\$16.00 - 17.75	1,790,000	2007	2017
Total share purchase options	4,393,952		

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

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

For the three and nine months ended September 30, 2015, the Company expensed \$202 (three months ended September 30, 2014 - \$229) and \$1,180 (nine months ended September 30, 2014 - \$894), respectively, 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 September 30, 2015		Three months ended September 30, 2014	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	86,202,806	\$ 0.18	84,600,067	\$ 0.23
Effect of dilutive securities:				
Stock options	564,701	-	1,412,536	-
Diluted	86,767,507	\$ 0.18	86,012,603	\$ 0.23

	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	85,700,123	\$ 0.93	84,526,093	\$ 0.70
Effect of dilutive securities:				
Stock options	564,869	(0.01)	1,022,545	(0.01)
Diluted	86,264,992	\$ 0.92	85,548,638	\$ 0.69

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.

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## Notes to the Interim Condensed Consolidated Financial Statements

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For the three months ended September 30, 2015, 1,940,000 options (three months ended September 30, 2014, – 1,790,000) and for the nine months ended September 30, 2015, 2,057,000 options (nine months ended September 30, 2014, – 1,907,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

### 14. OTHER FINANCE INCOME

	Three months ended September 30, 2015		Three months ended September 30, 2014		Nine months ended September 30, 2015		Nine months ended September 30, 2014	
Net foreign exchange gain	\$	777	\$	828	\$	3,999	\$	723
Other income, net		30		54		60		168
Other finance income	\$	807	\$	882	\$	4,059	\$	891

### 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 the World.

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

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

	Three months ended September 30, 2015				Three months ended September 30, 2014			
		Sales	Operating Income		Sales	Operating Income		
North America								
Canada	\$	195,572		\$	204,713	\$		
USA		368,066			332,051			
Mexico		181,396			148,922			
	\$	745,034	\$	36,715	\$	685,686	\$	24,112
Europe								
Germany		118,580			132,204			
Spain		34,162			21,662			
Slovakia		11,240			5,507			
	\$	163,982	\$	(8,588)	\$	159,373	\$	10,254
Rest of the World	\$	20,864	\$	(3,290)	\$	14,397	\$	(2,811)
	\$	929,880	\$	24,837	\$	859,456	\$	31,555

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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

	Nine months ended September 30, 2015		Nine months ended September 30, 2014	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 607,063		\$ 607,927	\$
USA	1,086,773		1,004,140	
Mexico	563,020		482,587	
	\$ 2,256,856	\$ 118,999	\$ 2,094,654	\$ 79,134
Europe				
Germany	385,196		429,866	
Spain	97,629		68,657	
Slovakia	34,520		17,540	
	\$ 517,345	\$ 7,461	\$ 516,063	\$ 40,326
Rest of the World	\$ 57,256	\$ (7,675)	\$ 44,147	\$ (7,217)
	\$ 2,831,457	\$ 118,785	\$ 2,654,864	\$ 112,243

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

### 16. FINANCIAL INSTRUMENTS

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

#### Fair Value

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

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

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

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 7,896	\$ 7,896	\$ -	\$ -
Foreign exchange forward contracts	\$ (1,641)	\$ -	\$ (1,641)	\$ -
	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 52,401	\$ 52,401	\$ -	\$ -
Foreign exchange forward contracts	\$ (9)	\$ -	\$ (9)	\$ -

#### Fair values versus carrying amounts

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



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## Notes to the Interim Condensed Consolidated Financial Statements

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September 30, 2015	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 628,332	\$ -	\$ 628,332	\$ 628,332
		628,332	-	628,332	628,332
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	(729,288)	(729,288)	(729,288)
Long-term debt	-	-	(720,619)	(720,619)	(720,619)
Foreign exchange forward contracts	(1,641)	-	-	(1,641)	(1,641)
	(1,641)	-	(1,449,907)	(1,451,548)	(1,451,548)
<b>Net financial assets (liabilities)</b>	<b>\$ (1,641)</b>	<b>\$ 628,332</b>	<b>\$ (1,449,907)</b>	<b>\$ (823,216)</b>	<b>\$ (823,216)</b>
<b>December 31, 2014</b>					
	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 520,844	\$ -	\$ 520,844	\$ 520,844
		520,844	-	520,844	520,844
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	(645,853)	(645,853)	(645,853)
Long-term debt	-	-	(692,442)	(692,442)	(692,442)
Foreign exchange forward contracts	(9)	-	-	(9)	(9)
	(9)	-	(1,338,295)	(1,338,304)	(1,338,304)
<b>Net financial assets (liabilities)</b>	<b>\$ (9)</b>	<b>\$ 520,844</b>	<b>\$ (1,338,295)</b>	<b>\$ (817,460)</b>	<b>\$ (817,460)</b>

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

### Risk Management

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

#### (a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. Approximately 85% (December 31, 2014 85%) of the Company's production sales are derived from seven customers. A substantial portion of the Company's accounts receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that were past due as at September 30, 2015 are part of normal payment patterns within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

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

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	September 30, 2015	December 31, 2014
0-60 days	\$ 569,951	\$ 473,337
61-90 days	18,367	15,982
Greater than 90 days	22,821	12,643
	\$ 611,139	\$ 501,962

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At September 30, 2015, the Company had cash of \$7,896 and banking facilities available as discussed in note 10. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

A summary of contractual maturities of long-term debt is provided in note 10.

### (c) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk as a significant portion of the Company's long-term debt bears interest at rates linked to the US prime, Canadian prime, one month LIBOR or the Banker's Acceptance rates. The interest on the bank facility fluctuates depending on the achievement of certain financial debt ratios, and may cause the interest rate to increase by a maximum of 1.75%.

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

	Carrying amount	
	September 30, 2015	December 31, 2014
Variable rate instruments	\$ 590,370	\$ 547,090
Fixed rate instruments	130,249	145,352
	\$ 720,619	\$ 692,442

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,442 (three months ended September 30, 2014 - \$1,377) on the Company's interim consolidated financial results for the three months ended September 30, 2015 and \$4,316 for the nine months ended September 30, 2015 (nine months ended September 30, 2014 - \$3,003).

### (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 September 30, 2015, the Company had committed to the following foreign exchange contracts:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 17,474	\$ 1.2416	3
Buy Euro	2,026	0.8885	1
Buy Mexican Peso	706	17.0010	1

The aggregate value of these forward contracts as at September 30, 2015 was a loss of \$1,641 and was recorded in trade and other payables (December 31, 2014 - loss of \$9 and was recorded in trade and other payables).

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

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<b>September 30, 2015</b>	<b>USD</b>		<b>EURO</b>		<b>PESO</b>		<b>BRL</b>		<b>CNY</b>	
Trade and other receivables	\$	328,562	€	64,733	\$	27,366	R\$	17,256	¥	81,249
Trade and other payables		(358,693)		(81,808)		(99,898)		(21,682)		(59,555)
Long-term debt		(302,314)		(31,670)		-		(668)		-
	\$	(332,445)	€	(48,745)	\$	(72,532)	R\$	(5,094)	¥	21,694

  

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

The following summary illustrates the fluctuations in the exchange rates applied during the three and nine months ended September 30, 2015 and 2014:

	<b>Average rate</b>		<b>Average rate</b>		<b>Closing rate</b>	
	<b>Three months ended September 30, 2015</b>	<b>Three months ended September 30, 2014</b>	<b>Nine months ended September 30, 2015</b>	<b>Nine months ended September 30, 2014</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
USD	1.2785	1.0834	1.2404	1.0903	1.3345	1.1601
EURO	1.4224	1.4602	1.3967	1.4875	1.4914	1.4038
PESO	0.0800	0.0831	0.0810	0.0832	0.0789	0.0787
BRL	0.3902	0.4829	0.4131	0.4762	0.3385	0.4365
CNY	0.2046	0.1749	0.1991	0.1771	0.2107	0.1869

### Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10% strengthening of the Canadian dollar against the following currencies at 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, 2015 by the amounts shown below, assuming all other variables remain constant:

	<b>Three months ended September 30, 2015</b>		<b>Three months ended September 30, 2014</b>		<b>Nine months ended September 30, 2015</b>		<b>Nine months ended September 30, 2014</b>	
USD	\$	(1,640)	\$	(257)	\$	(5,346)	\$	(2,267)
EURO		177		(1,837)		(1,391)		(4,725)
BRL		167		191		361		586
CNY		296		75		632		203
	\$	(1,000)	\$	(1,828)	\$	(5,744)	\$	(6,203)

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)

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### 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 \$58,395 (BRL \$172,510) including interest and penalties to September 30, 2015 (December 31, 2014 - \$69,067 or BRL \$158,230). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling \$40,035 at some point in 2016 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, 2015, the amount of the program financing was \$72,946 (December 31, 2014 - \$17,229) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2015 to date or 2014. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.