

# MANAGEMENT DISCUSSION AND ANALYSIS

## OF OPERATING RESULTS AND FINANCIAL POSITION

**For the Quarter ended March 31, 2008**

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The following management discussion and analysis (“MD&A”) was prepared as of May 12, 2008 and should be read in conjunction with the Company’s unaudited consolidated financial statements for the quarter ended March 31, 2008. All amounts in this MD&A are in Canadian dollars, unless otherwise stated, and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares.

### Overview

Martinrea International Inc. (“Martinrea” or the “Company”) is a leader in the production of quality metal parts, assemblies and modules and fluid management systems focused primarily on the automotive sector. Martinrea currently employs approximately 7,100 skilled and motivated people in 30 plants in Canada, the United States, Mexico, and the United Kingdom. The Company completed the acquisition of the North American automotive body and chassis operations of ThyssenKrupp Budd Company (“TKB”) on December 1, 2006 and the financial position and results from those acquisitions have been included in the Company’s consolidated financial statements from the relevant acquisition dates. Given the size of the TKB acquisition, the Company continues to integrate the operations and as such quarterly and annual results are impacted. Year over year and quarter over quarter results may not be comparable.

Martinrea’s objective is to develop a state-of-the-art international fluid systems and metal forming business that will continue to be and further become a key supplier in the automotive industry. Growth will be prudent, profitable and based on innovation. The backbone of this future growth is the development of talented people. The significant development of the Company since 2002 has reflected this business strategy and growing profitability of the Company.

### Results of Operations

#### REVENUE

<i>3 months ended</i>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>Change</b>	<b>% Change</b>
Revenues	433,827	525,776	- 91,949	-17.5%

Revenues for the first quarter ended March 31, 2008 have decreased from the prior year comparables primarily due to lower volumes on existing customer programs as a result of the general downturn in the automotive industry, the impact of the American Axle strike, a decrease of tooling revenues and an appreciation of the Canadian dollar versus the U.S. dollar resulting in a reduction in the translation of U.S. dollar denominated revenues. Incremental production sales were also offset by customer pricing pressures that continue to be a normal part of the North American automotive parts industry.

The Company's revenue for the first quarter of 2008 of \$433.8 million was lower than the revenue of the fourth quarter of 2007 of \$462.5 million primarily due to the impact of the American Axle strike and the general downturn in the automotive industry. Tooling revenue increased by \$11.9 million compared to the fourth quarter of 2007.

#### GROSS MARGIN

<i>3 months ended</i>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>Change</b>	<b>% Change</b>
Gross Margin	49,256	61,956	-12,700	-20.5%
% of revenues	11.4%	11.8%		

Gross margin percentage for the first quarter of 2008 has decreased in comparison to the first quarter of 2007 gross margin primarily due to lower production volumes in the first quarter of 2008 as compared to the first quarter of 2007 and the continuing impact of unfavourable product launch costs at one of the Company's facilities. The Company will work to improve gross margin percentage through continuation of its efficiency programs, the utilization of capacity, incremental new work from customers and the rationalization of operating facilities as necessary.

Gross margin percentage of 11.4 % for the first quarter of 2008 is lower than the 12.6% gross margin percentage for the fourth quarter of 2007 primarily due to unfavourable gross margin product mix and lower production volumes in the first quarter of 2008 as compared to the fourth quarter of 2007. The Company expects to improve gross margin through new efficiency programs, the utilization of available capacity and the rationalization of operating facilities as necessary. As production volume increases, the Company anticipates gross margin would increase.

#### SELLING, GENERAL & ADMINISTRATIVE

<i>3 months ended</i>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>Change</b>	<b>% Change</b>
Selling, general & administrative	23,175	26,191	-3,016	-11.5%
% of revenues	5.3%	5.0%		

Selling, general and administrative expenses for the first quarter of 2008 decreased compared to the first quarter of 2007 primarily due to the execution of the Company's integration plan for the TKB facilities and continuing staff reductions in line with decreasing revenues. On a percentage of revenues basis selling, general and administrative expenses have remained fairly consistent as management continues to monitor, manage and rationalize these expenses.

Selling, general and administrative expenses for the first quarter of 2008 of \$23.2 million are less than the expenses incurred of \$27.6 million in the fourth quarter of 2007. The reduction of selling, general and administrative expenses in the first quarter of 2008 as compared to the fourth quarter of 2007 is due to lower stock compensation costs, other cost cutting measures lower revenues and the timing of engineering expenses. On a percentage basis selling, general and administrative expenses decreased from 6.0% to 5.3% for the reasons noted above.

## AMORTIZATION

<i>3 months ended</i>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>Change</b>	<b>% Change</b>
Amortization	10,916	12,994	-2,078	-16.0%

Amortization expense for the first quarter of 2008 is lower than the first quarter of 2007 due to the inclusion of \$2.6 million of capital asset write-downs in the first quarter of 2007. In the absence of the impairment charge, the adjusted amortization expense would have been \$10.4 million for the first quarter of 2007. The increase in amortization in the first quarter of 2008 as compared to the adjusted amortization expenses for the first quarter of 2007 were attributable to the finalization of the TKB purchase equation.

Adjusted amortization expense does not have a standardized meaning prescribed by Canadian GAAP and thus is not comparable to similar measures presented by other issuers. Readers are encouraged to consider these adjusted measures in the context of the Company's results.

Amortization for the first quarter of 2008 was \$10.9 million compared to \$12.8 million for the fourth quarter of 2007. The decrease in amortization in the first quarter of 2008 as compared to the fourth quarter of 2007 was attributable to an increase from amortization adjustments in the fourth quarter of 2007 that were attributable to the finalization of the TKB purchase equation.

## NET EARNINGS

<i>3 months ended</i>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>Change</b>	<b>% Change</b>
Net earnings	9,906	14,658	-4,752	-32.4%
Earnings per common share				
Basic	0.14	0.23	-0.09	
Diluted	0.14	0.23	-0.09	

The decrease in net earnings from the prior year is primarily attributable to lower revenues as a result of general downturn in the automotive industry and the impact of the American Axle strike, product mix and the continuing impact of unfavourable product launch costs at one of the Company's facilities.

Net earnings for the first quarter of 2008 were \$9.9 million and \$0.14 per share on a basic and fully diluted basis, as compared to net earnings in the fourth quarter of 2007 of \$11.3 million and \$0.16 on a basic and fully diluted basis. The decrease in net earnings and earnings per share in the first quarter of 2008 as compared to the fourth quarter of 2007 is primarily attributable to the lower production volumes and product mix.

On April 23, 2008, Kitchener Frame Limited (KFL), a subsidiary of the Company, informed its employees of the impending plant closure of the Kitchener facility. The closure date has been set up for April 23, 2009 but could be extended until approximately July 2010, contingent on receiving approval for extension from one of its customers. However, there are no plans to operate this plant beyond July 2010. On closure, it is planned that all of the employees at this facility will be terminated

and all manufacturing capital assets along with any active production work will be moved to other manufacturing facilities of the Company. A decision on future use of the building in which these assets are situated has still not been made and would be decided based on various factors including the real estate market conditions existing at the time of the closure.

The financial impact of this plant closure is still being determined and could result in the Company having to pay severance and termination benefits in the range of \$24 million to \$28 million. The exact impact of this closure would be incorporated in the results of second quarter of 2008.

## **CAPITAL EXPENDITURES**

In the first quarter of 2008, capital expenditures decreased by \$0.9 million to \$13.0 million from \$13.9 million in the first quarter of 2007. The capital expenditures incurred in the first quarter of 2008 are attributable to program capital for new and existing programs.

### **Selected Quarterly Information**

*(in thousands of Canadian Dollars, except for earnings per share and number of shares)*

	<b>Mar 31-08</b>	<b>Dec 31-07</b>	<b>Sep 30-07</b>	<b>Jun 30-07</b>	<b>Mar 31-07</b>	<b>Dec 31-06</b>	<b>Sep 30-06</b>	<b>Jun 30-06</b>
Sales	433,827	462,549	476,212	537,924	525,776	299,380	174,120	204,318
Gross margin	49,256	58,288	66,145	69,176	61,956	40,618	31,320	38,651
Selling, general and administrative	23,175	27,635	28,792	25,580	26,191	20,765	11,738	12,901
Amortization	10,916	12,751	11,085	11,797	12,994	7,934	10,676	10,122
Interest	1,131	2,219	3,169	2,484	3,487	2,359	611	567
Net earnings	9,906	11,322	14,967	19,518	14,658	8,657	7,517	11,915
Earnings per share								
Basic	0.14	0.16	0.23	0.30	0.23	0.13	0.12	0.20
Diluted	0.14	0.16	0.23	0.30	0.23	0.13	0.12	0.19
Weighted average number of common shares outstanding								
Basic	71,826,018	70,456,238	64,546,897	64,026,466	62,521,484	62,333,377	61,303,351	59,586,208
Diluted	72,626,971	72,035,371	66,467,516	65,967,940	65,128,442	64,273,688	64,003,355	62,384,835

### **Liquidity and Capital Resources**

The Company's financial condition remains strong given its balance sheet, its low level of debt, the continuing profitability of its operations and its prospects for growth and new program launches. All

capital expenditures will be financed by cash flow from operations, utilization of existing financing facilities and asset backed financing.

On November 29, 2006, the Company amended its lending arrangements to provide the Company with a \$172 million term facility and a \$100 million revolving facility. The term to maturity of the facility was five years. The Company used the proceeds to purchase the TKB assets and repay the outstanding loan balance of its previous loan agreement. In the third quarter of 2007, the Company further amended its term facility to primarily a revolving term facility.

On October 18, 2007 the Company issued 7,250,000 common shares on a private placement basis pursuant to a bought deal financing agreement with a syndicate of underwriters. The shares were priced at \$17.50 per share for gross proceeds of \$126.9 million. Out of the net proceeds received of \$121.7 million (after deduction of all transaction costs net of tax of \$3.6 million) an amount of \$109.0 million was used to pay down the revolving portion of the five year commercial term loan facility.

The Company had cash of approximately \$17.2 million at March 31, 2008. Cash has decreased from \$48.0 million at December 31, 2007 primarily due to capital expenditures and lump sum 2007 final tax payments. The Company has not drawn any amount under the \$100 million revolving banking facilities discussed above. In addition, as discussed above, the Company's revolving portion of the term facility of approximately \$103.1 million remains available for future borrowings.

Long-term debt has decreased from \$99.6 million at December 31, 2007 to \$97.0 million at March 31, 2008. The marginal decline is primarily due to scheduled loan repayments in the first quarter of 2008.

The Company has negotiated tool financing facilities that will provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At March 31, 2008, the amount of program financing was \$18.8 million. The maximum amount of undiscounted future payments the Company could be required to make under the guarantee is \$18.8 million. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

The Company had a strong balance sheet as at March 31, 2008, with shareholders' equity of \$741.6 million, as compared to \$721.5 million as at December 31, 2007. The Company's working capital of \$211.9 million, together with internally generated cash flow and existing financing facilities, will be sufficient to cover anticipated working capital needs. As at March 31, 2008, Martinrea's ratio of current assets to current liabilities was 1.8:1. This is comparable with the prior year ratio of 1.7:1.

## Acquisitions

### ThyssenKrupp Budd

On December 1, 2006, the Company purchased the North American automotive body and chassis operations of TKB. The price for the transaction negotiated by the parties was approximately US\$275 million, comprised of a cash payment and the balance in assumed liabilities. The closing date cash payment of US\$121 million included the agreed-upon US\$95 million cash payment plus payment of an additional US\$26 million for preliminary closing adjustments and working capital (including cash on hand of the acquired operations). The cash portion of the transaction was funded from Martinrea's credit facilities. In March 2007, the working capital adjustments (including cash on hand of the acquired operations) were finalized, and the cash payment in connection with the TKB acquisition was adjusted to US\$103.6 million. In addition during 2007 other adjustments were made that increased the final cash cost of the TKB acquisition by \$US0.9 million to US\$104.6 million from US\$103.6 million in accordance with the guidance specified in EIC-114 that requires the finalization of the cost of purchase within one year of the acquisition date.

The liabilities recorded by the Company on December 1, 2006 from the TKB transaction and included in the Company's financial statements for the year ended December 31, 2006 were reduced from the assumed liabilities as negotiated by the parties of US\$180 million as disclosed by the Company on December 1, 2006 to US\$74 million. The reduction in the liability recognized for financial statement purposes by the Company is a result of the Company's negotiations with Company employees that reduced post retirement benefits in one facility in the United States, additional reductions in post retirement employee liabilities resulting from the fair value calculation of the post retirement employee liabilities at December 1, 2006 in accordance with Canadian accounting standards and the application of accounting pronouncement EIC-114 (Liability Recognition for Costs Incurred on Purchase Business Combinations) to anticipated costs related to potential exiting activities that have not been recognized as a liability assumed in the purchase business combination at December 31, 2006.

The North American body and chassis operations acquired by Martinrea specialized in a wide variety of metal forming activities, including Class A body stamping, metallic welded assemblies, hot metal stampings, automotive sheet metal stamping and the module assembly of a wide variety of chassis component parts. The acquired operations cover 13 plants throughout North America, with over 3,500 employees, as well as a technical centre in Michigan. The four largest customers of the acquired business are DaimlerChrysler, Ford, General Motors and Nissan, each with over 10% of the revenues generated.

The acquired assets included a large Class A body stamping facility in Shelbyville, Kentucky, which produces sheet metal automotive body stampings and assemblies, such as doors and fenders, in a facility approximating one million square feet. This became Martinrea's first Class A facility (now called Martinrea Heavy Stampings). A 200,000 square foot facility in Hopkinsville, Kentucky (now called Martinrea Hopkinsville) produces chassis frame modules, components and suspension assemblies. A facility in Hermosillo, Mexico, located near Martinrea's existing fuel tank plant, assembles chassis products such as engine cradles. Included in the asset package were six plants formerly operated by ThyssenKrupp Fabco (now Martinrea Fabco), which produce medium and

heavy metal stampings, weldments and major tubular fabrications, in the southern state locations of Springfield, Tennessee and Tupelo, Mississippi, thus giving Martinrea a metal manufacturing base in the southern United States as well as in the midwest and northern states; as well as Fabco plants in Michigan and three locations in southern Ontario. A facility in Kitchener, Ontario, builds full sized chassis frames and frame components, bumpers and bumper reinforcements (now called Kitchener Frame). The purchased assets also included the systems assembly facilities of Thyssenkrupp Budd Systems (now called Martinrea Automotive Systems), that will allow Martinrea to become an integrator of customer modules including rear suspension modules for cars and sport utility vehicles in locations in the United States, Canada and Mexico. Since the acquisition, all of the facilities have been renamed. During 2007 one module system plant in the United States was closed due to the completion of the customer contract.

This acquisition made the Company a significantly larger player in the North American metal forming market, with sales putting it in the group of the four or five largest suppliers in this area, along with Magna (Cosma), Tower Automotive and Dana Corporation. The acquisition expanded Martinrea's customer base in the metal forming area, with Nissan becoming a significant customer for the Company, and the Company's General Motors, DaimlerChrysler and Ford metallic business was expanded. Martinrea expanded its manufacturing footprint in new regions, especially the southern United States, where there are many metal forming opportunities to service the OEMs who have established assembly plants there. After closing Martinrea became a more fully ranged metal forming supplier, with Class A ability, hot stamping technology and operations that are currently in great demand by OEMs, as well as additional metal stamping, a wider base of welded assemblies, hydroforming in the United States, the engineering capability to manufacture entire truck frames, and module assembly facilities that complement Martinrea's broad existing capabilities.

The financial position and results of TKB have been included in the Company's financial statements commencing December 1, 2006.

### **Risks and Uncertainties**

The Company is exposed to a number of risks and uncertainties that could impact future results. The nature of the Company's business, especially in the automotive sector, means that it is affected by general economic conditions and competitive factors, both domestic and from foreign sources. The Company operates in a capital intensive business environment and therefore needs to be financially able to purchase new equipment and technology on a timely basis. The Company has a strong balance sheet and, to ensure future tooling and capital requirements are satisfied, the Company has negotiated capital equipment financing facilities to supplement cash flow generation from Company operations.

The automotive industry is currently an extremely challenging business characterized by rapid technological change, frequent new product introductions, customer pricing pressures, and supplier insolvencies. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols.

The Company has acquired and anticipates that it may continue to acquire complementary businesses, assets, technologies, services or products. In 2006, the Company completed two acquisitions, Rollstar and the TKB assets. The completion of such transactions poses additional risks to the Company's business. The benefit to the Company of these acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on the Company's business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt.

The success of the Company is also dependent on a variety of risk factors, which could materially and adversely affect Martinrea's future operating results, including, but not limited to:

- the dependence upon a few large customers such that cancellation of a significant order or a loss or insolvency of a major customer would reduce the Company's revenues and/or profits;
- a potential work disruption at one or more of the Company's customers resulting from labour stoppages at or insolvencies of key suppliers to such customers could have a significant impact on the Company's revenues and/or profits as evidenced by the recent American Axle strike;
- the cyclical nature of the automotive industry and other risks inherent to the automotive industry including its dependence on, among other factors, consumer spending and general economic conditions;
- the high level of competition in the industry, and the fact that some of Martinrea's competitors have significant financial or other resources;
- the pressure to absorb additional costs from the customer and the pressure of price reduction programs typical in the automotive industry, which have become increasingly intense over the past several years, together with the fact that customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions;
- production volumes on vehicle platforms may vary to reflect consumer demand, and the Company's revenues per platform are highly dependent on such platform volumes;
- the financial viability of suppliers, the insolvency or financial distress of which may disrupt the supply of components to the Company or its customers, causing potential shutdowns of the Company's or customer's production lines;
- dependence on the continued outsourcing of components, modules and assemblies by OEMs;
- potential increases in competition from suppliers that have manufacturing operations in low cost countries;
- the dependence of the Company's success on the services of a number of the members of its senior management. The experience and talents of these individuals will be a significant factor in the Company's continued success and growth. The loss of one or

more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects;

- risks relating to product warranty, recall and liability;
- uncertainty of financing a capital intensive business should the Company seek additional equity or debt financing;
- changes in the regulatory environment;
- ongoing health and labour relations issues;
- financial obligations relating to pension plans and post-employment benefits, and financial obligations imposed by potential under-funding of pension plans;
- currency and interest rate risks; and
- increases in the price of raw materials upon which the Company is directly or indirectly dependent, including electricity, oil and steel, although most of the Company's steel requirements are purchased from its original equipment manufacturing customers, thus reducing the direct exposure to steel prices.

For a more detailed discussion of some of these factors, and a broader description of the Company's business, reference is made to the disclosure regarding Martinrea's operations and the risks and uncertainties facing the Company set forth in the Company's Annual Information Form and other public filings which can be found at [www.sedar.com](http://www.sedar.com).

### **Disclosure of Outstanding Share Data**

As at May 12, 2008, the Company had 72,426,018 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at May 12, 2008, options to acquire 4,938,833 common shares were outstanding.

### **Related Parties**

A director of the Company is also a director and former officer of a Company which purchased \$0.5 million of products from the Company for the quarter ended March 31, 2008 (2007 - \$0.5 million). These sales were in the normal course of business and were at fair market value.

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

The Chief Executive Officer and President and Chief Financial Officer have designed disclosure controls and procedures to ensure that material information with respect to Martinrea is made known to them. The Chief Executive Officer and President and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and to report any material changes in internal controls over financial reporting.

## **Changes in Internal Controls Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim period ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Critical Accounting Estimates**

The Company's discussion and analysis of its results of operations and financial position is based upon the consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Company's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements of the Company. Management has discussed the development and selection of the following critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting policies in this MD&A.

### *Revenue Recognition on Separately Priced Tooling Contracts*

Revenues from tooling contracts are recognized substantially on a completed contract basis. The completed contract method recognizes revenue and cost of sales upon completion of the tooling project, which is typically defined as the PPAP (customer acceptance) date. Under such contracts, the related receivables could be paid in full upon completion of the contract, or in installments.

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

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

The Company expenses all costs as incurred related to the design and development of moulds, dies and other tools that it will not own and that will be used in, and reimbursed as part of the piece-price amount for, subsequent related parts production unless the supply agreement provides the Company with a contractual guarantee for reimbursement of costs or the non-cancelable right to use the moulds, dies and other tools during the supply agreement, in which case the costs are capitalized.

#### *Impairment of Goodwill, Intangibles and Other Long-lived Assets*

Goodwill and indefinite life intangibles are subject to an annual impairment test or more frequently when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit or indefinite life intangible below its carrying value.

Management evaluates fixed assets and other long-lived assets for impairment whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing fixed or other long-lived asset. If the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges, is less than the reported value of the asset, asset impairment must be recognized in the financial statements. The amount of impairment to be recognized is calculated by subtracting the fair value of the asset from the reported value of the asset.

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

#### *Future Income Taxes*

At March 31, 2008, the Company had recorded a net future income tax asset (net of related valuation allowances) in respect of pensions and other post retirement benefits, loss carry forwards and other temporary differences of \$17.3 million.

Future tax assets in respect of loss carry forwards relate primarily to legal entities in Canada, the United States and Europe. The Company evaluates quarterly the realization of its future tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are a forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The Company has, and continues to use, tax planning strategies to realize future tax assets in order to avoid the potential loss of benefits.

At March 31, 2008, the Company had gross income tax loss carry forwards of approximately \$76.0 million. Of these total losses, approximately \$44.8 million relate primarily to operations in Europe. The tax benefits of \$37.2 million of these European losses have not been recognized in the

Company's consolidated financial statements. Of the total losses, \$69.1 million expire between 2010 and 2028 and the remainder has no expiry date.

At March 31, 2008, the Company had net capital loss carry-forwards of approximately \$4.2 million which have no expiry date.

#### *Stock-based Compensation*

The Black-Scholes option valuation model was used by the Company to determine fair values of options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options. During the year ended 31<sup>st</sup> December 2007, the Company used the following assumptions to determine the stock-based compensation expense under the Black-Scholes option pricing model: risk free interest rate - 4.6 %, expected life – 4 years and expected volatility - 34%.

#### *Employee Future Benefits*

Due to the acquisition of TKB, the Company provides pensions and post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in notes 10 and 11 to the Company's annual consolidated financial statements, the most significant of which are the discount rate, expected rates of return on plan assets, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses as disclosed in notes 10 and 11 to the annual consolidated financial statements. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

### **Recently Issued Pronouncements**

#### *Capital Disclosures*

The CICA issued section 1535, Capital Disclosures, which provides standards for disclosures regarding a company's capital and how it is managed. Enhanced disclosure with respect to objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital may be required. These recommendations are effective for fiscal years beginning on or after October 1, 2007. The Company has incorporated the impact of these standards on the interim consolidated financial statements beginning January 1, 2008.

### *Financial Instruments*

The CICA issued two new accounting standards Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, which apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards revise and enhance the disclosure requirements, and carry forwards substantially unchanged, the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from Financial instruments, and how these risks are managed. The Company has incorporated the impact of these standards on the interim consolidated financial statements beginning January 1, 2008.

### *Inventories*

The CICA issued accounting standard, section 3031, Inventories, which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the type of costs that can be capitalized and requires the reversal of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The Company has incorporated the impact of these standards on the interim consolidated financial statements beginning January 1, 2008.

### **Outlook**

The automotive industry is an extremely challenging business, characterized at the OEM level by intense competition for market share, rebates to consumers, declining profits and/or losses at North American OEMs, and drives for quality and profits, and characterized at the supplier level by price reductions, increasing quality standards, higher input prices and a declining number of qualified suppliers in the normal course or as a result of insolvencies. The Company believes that the long term outlook of the automotive industry overall is mixed with some good prospects. There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products. Growth at the supplier level will occur as OEMs reduce the number of Tier 1 suppliers, continue to outsource product, and provide opportunities for new work and takeover business. Given the Company's stage of its growth, an industry slow-down or consolidation can still be viewed as a strategic opportunity to win additional business from competitors producing fluid management systems or metal formed products. The Company also believes that its capabilities provide it with the ability to capitalize on a broad range of opportunities, an ability enhanced by recent acquisitions. In 2003, the Company streamlined operations, managed the integration of acquisitions to create efficiencies, strengthened product offerings, took advantage of technological capabilities and created more profitability. The Company built on this in 2004 and in 2005, building a base for the future. In 2006, the Company again pursued this strategy, and added a major complementary acquisition to broaden its base. In 2007, the Company focused on integrating its acquisitions and continued with its traditional strategic focus. The Company will continue to pursue its strategies in 2008 and beyond with a view to increasing revenues and profits.

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

This MD&A contains forward-looking statements within the meaning of applicable Canadian Securities laws including statements relating to the outlook of the automotive industry, growth at the supplier levels, the Company's pursuit of its business strategies and the Company's and its suppliers' credit facilities. The words "expect", "anticipate", "estimate", "may", "will", "should", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the those risks and uncertainties as set out under the heading "Risks and Uncertainties" in this MD&A and those risks and uncertainties as set forth in the Company's Annual Information Form and other public filings which can be found at [www.sedar.com](http://www.sedar.com).

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements.