MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2008

MESSAGE TO SHAREHOLDERS

The year 2008 started well for Martinrea in many ways. But the world in which we all live and work changed in ways we have not seen before.

Before we talk about the year just past, let us emphasize that our corporate objective still remains the same—to develop a state of the art international fluid systems and metal forming business. Put more simply, we aim to be the best automotive parts supplier in the world. To meet this objective, we support our customers and become a leading supplier of choice. We attract talented people, develop them well and encourage them to perform great things. We embrace innovation and capitalize on it.

Nothing that has happened in the past year has altered our vision. It made us stronger as a company and as people ready for any challenge. We are survivors.

We remain true to our business strategy, constantly monitoring and updating it as required or desired. Key elements of that strategy that we applied in 2008 and will continue to apply in 2009 include the following:

- **Develop key human resources** – At the core of our Company are our people. We recognize that the most important people in the Company are the people that make the parts, that work on the floor and that make the difference between a successful business and an unsuccessful one. We would like to thank and congratulate our people for their performance in 2008, in difficult and challenging times. The Company is led by entrepreneurial people, who consistently strive for better performance. We continue to strengthen our management team, and did so in the past year, certainly not just at the corporate office, but at the group leader level and at the general manager and plant level. In our Company, your Company, we want our best people to aspire to be general managers and entrepreneurs. Our team has the skill set and will to adjust quickly to the changes we face.

- **Enhance quality** – We have always focused on quality. We continue to enhance it, emphasize it, live it, and breathe it. We intend to make the term "quality" and Martinrea synonymous. This is critical to us becoming a "go to" supplier for our customers.

- **World Class Technologies** – We embrace new technologies and new ways to improve existing technologies. We have invested in 2008 and will continue to invest heavily in the future in leading edge technology, equipment, and manufacturing processes. We need to be efficient, flexible, and lean, especially in challenging times, and our commitment to automation, flexible manufacturing, innovation, and technology remains a bedrock principle. It is a differentiator for us, we believe. This is a key to long-term success.

People. Quality. Technology. Working Together.

If we can combine all of these strategic elements, utilizing our successful decentralized operating system, we are able to expand our customer base, expand sales and product offerings within our existing customer base, and look to new product areas, which extend beyond the automotive business. Martinrea currently has business in key non-automotive areas including transit, agriculture, air conditioning systems, and the military supply base, and we see benefits in the future from utilizing our automotive related manufacturing assets and expertise in areas we can do so while utilizing a competitive advantage.

We have described the automotive industry many times as a perpetual storm, where many suppliers are suffering or dying. The year 2008 came in like a mild shower, and ended like a gale force hurricane.

Overall we experienced declining revenues and lower volumes in 2008 as the global credit and economic crisis in general and the severe contraction of the North American, and global, automotive industry in particular took hold, especially in the second half of the year. Revenues approximated $1.56 billion, including tooling, reflecting lower production volumes. We remained profitable in each of the first three quarters of 2008, but generated a net loss in the fourth quarter of 2008, as we recorded impairment charges on goodwill; recorded an impairment of property, plant and equipment; recognized certain restructuring charges connected with the acquisition of the ThyssenKrupp Budd operations in 2006, and particularly related to the closure of the Kitchener Frame plant announced in the fourth quarter of 2008; and recognized certain other restructuring charges and asset impairment charges reflecting a decline in value of some long-lived assets. These amounts were substantial, but also are non-operational and non-recurring.

There were no significant acquisitions or divestitures in 2008, but we continued to adjust plant capacity in many areas. In the fourth quarter of 2008, we announced the closure of the Kitchener Frame facility, as the facility's major product, the chassis for the GMC Envoy and the Chevrolet Trailblazer, ended production in late 2008. This closure was contemplated at the time of acquisition of the facility from ThyssenKrupp Budd, with timing dependent on the customer's decision on when the program would end. We also restructured operations in Windsor, by removing all parts other than one product. Upon termination of the production life of this product we plan to close the Windsor plant. We have planned to consolidate our FMT and U.K. facilities into other operations. Certain other operations were expanded in 2008. Our plant in Slovakia was completed and is commencing production in 2009; the expansion of Tupelo, Mississippi was completed; the Estampados facility in Mexico increased parts production; and the consolidation of the plant in Manchester, Michigan for fluid system products was completed. A new assembly facility in Ajax, Ontario was set up and commenced production of assemblies for the Chevrolet Camaro program in early 2009. So, while our business contracted in some areas, it expanded in others also.

Despite many of the challenges in the automotive industry and in industrial operations in North America in 2008, we continued to win new mandates from customers, and grew our customer base in other areas. New product mandates were won from General Motors, Ford, Nissan and Chrysler, including global compact stampings for GM; the next generation Ford C-1 Platform (Focus and Escape) engine cradle; welded metallic assemblies on the new Nissan commercial van commencing 2010; the next generation Jeep front end reinforcement through a Tier One supplier; GM Epsilon takeover compact vehicle fluid products; small but important first orders with Paccar and Cummins Engine; new metallic business on Ford's new Transit vehicle; additional work on the next generation of Ford's Super Duty pick-up; metal forming and fluid management awards on the next generation Jeep Grand Cherokee; new business from Toyota Boshoku, a Toyota kieretsu supplier, and Volkswagen, which became new customers in 2008; new mandates from non-automotive customers, such as Lennox, an air conditioning manufacturer, International Truck and John Deere; and takeover business from several suppliers. We are being awarded new work and takeover business, even in trying times.

We believe that the long term outlook of the automotive industry overall is very challenging in the near term, and recovery of the overall North America market will take time.

However, while there are many challenges, opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium, and longer term, and who survive current automotive and economic crises. 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. We believe that an industry slow-down or consolidation can be viewed as a strategic opportunity to win additional business from competitors producing fluid management systems or metal formed products. We believe people will continue to buy vehicles and suppliers will be required to manufacture the product and our capabilities provided us with the ability to capitalize on a broad range of opportunities.

We have always tried to capitalize upon opportunities, and we have had success in doing so, through applying our strategies. We did this in the past, we did this in 2008, and we will do this in 2009 and beyond. We have the people to do it. And, we think we remain strong financially and take advantage of opportunities.

We have enjoyed the support of our shareholders, our customers and our employees, who are our most important resource, again in 2008, and we thank you all.

We will continue to strengthen our company. Your executive management team will continue to work hard to achieve success. We are supported by a tremendous group of people here at Martinrea. We are privileged to serve on the Martinrea team. We will not let you down.

On behalf of your Company,

(Signed)	(Signed)
Rob Wildeboer	Fred Jaekel
Executive Chairman	Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the Year ended December 31, 2008

The following management discussion and analysis ("MD&A") was prepared as of March 30, 2009 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008, together with the notes thereto. 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 4,400 (2007 – 7,100) skilled and motivated people in 30 plants in Canada, the United States, Mexico, and Slovakia. The reduction in employees was implemented due to the decrease in customer production volumes during the third and fourth quarters of 2008. 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.

Results of operations during 2008 include substantial one-time costs related to the effects of production reduction by customers in North American Light vehicle platforms as result of the North American economic recession. These impacts have been separately disclosed, were appropriate, in order to provide a clear assessment of the underlying Company results. This has required the use of non-GAAP measure in the Company's disclosures that Management believes provide the most appropriate basis on which to evaluate the Company's results.

Non-GAAP Measures

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios in this analysis that the Company believes will provide useful information in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to the other financial measures determined in accordance with Canadian GAAP. Non-GAAP measures referred to in the analysis include "adjusted net earnings", "adjusted net loss", "adjusted earnings per share on a basic and diluted basis" and "adjusted loss per share on a basic and diluted basis" and are as defined in the Table A and B sections of this MD&A.

Results of Operations

REVENUE

	Year ended December 31			
	2008	**2007**	**Change**	**% Change**
Revenue	1,557,021	2,002,461	(445,440)	(22.2%)

2008 to 2007 comparison

Revenue for the year ended December 31, 2008 has decreased from the prior year by 22.2% primarily due to significant production reduction by customers in North American light vehicle platforms as a result of the North American economic recession, an appreciation of the Canadian dollar versus the U.S. dollar in 2008 which resulted in a reduction in the translation of U.S. dollar denominated revenues of approximately $11.8 million and customer pricing pressures that continue to be a normal part of the North American automotive parts industry. Tooling sales relating to new program launches increased by $1.2 million during 2008.

Fourth Quarter 2008 to Fourth Quarter 2007 comparison

The Company's revenue for the fourth quarter of 2008 of $356.9 million was lower than revenue for the fourth quarter of 2007 of $462.5 million by $105.6 million primarily due to the significant reduction in volumes in North American light vehicle platforms experienced during the fourth quarter of 2008, especially related to light trucks. This decrease was offset, in part, by a decline in the Canadian dollar versus the U.S. dollar in the fourth quarter of 2008 in comparison to fourth quarter of 2007 which increased the translation of U.S. dollar denominated revenues by $39.3 million. Tooling revenues increased by $30.6 million in the fourth quarter of 2008 as compared to fourth quarter of 2007.

Fourth Quarter 2008 to Third Quarter 2008 comparison

Revenue for the fourth quarter of 2008 of $356.9 million was $1.4 million higher than the $355.5 million in revenue for the third quarter of 2008. The increase in revenues is primarily due to tooling revenue increases of $31.8 million in the fourth quarter of 2008 as compared to the third quarter of 2008, that were offset by production reductions by customers as a result of the North American economic recession. Excluding the increase in tooling revenue for the fourth quarter of 2008 as compared to the third quarter of 2008 production revenue decreased by $30.4 million. This reduction in production revenue is consistent with volume reductions by customers in fourth quarter of 2008 as compared to the third quarter of 2008.

GROSS MARGIN

	Year ended December 31			
	2008	**2007**	**Change**	**% Change**
Gross Margin	127,294	218,685	(91,391)	(41.8%)
% of revenues	8.2%	10.9%		

Due to the adoption of the new CICA Handbook Section 3031, Inventories, in 2008 the amortization of property, plant and equipment ("PP&E") that are directly related to production have been reclassified to cost of sales. The comparative amounts for 2007 have also been reclassified to conform to the current year's presentation.

2008 to 2007 comparison

Gross margin percentage of 8.2% for the year ended December 31, 2008 has decreased by 2.7% compared to the prior year of 10.9%. The gross margin percentage reduction is primarily due to under absorption of manufacturing overhead as a result of low production volumes, change in product mix resulting in significant reductions in the light truck and sport utility platforms, an increase in tooling revenues with no associated margin and continuous pricing pressures from customers that continue to be a normal part of the North American automotive parts industry.

Fourth Quarter 2008 to Fourth Quarter 2007 comparison

Gross margin percentage of 4.1% for the fourth quarter of 2008 decreased by 6.6% from the 10.7% gross margin percentage for the fourth quarter of 2007. The gross margin percentage reduction of 6.6% was primarily due to under absorption of manufacturing overhead as a result of low production volumes, change in product mix resulting in significant reductions in the light truck and sport utility platforms, an increase in tooling revenues with no associated margin, continuous pricing pressures from customers that continue to be a normal part of the North American automotive parts industry, and $7.5 million in relation to developmental and supplier insolvency costs as discussed below in Adjustments to Net Income which negatively impacted the gross margin in the fourth quarter of 2008 by 2.1%.

Fourth Quarter 2008 to Third Quarter 2008 comparison

Gross margin percentage of 4.1% for the fourth quarter of 2008 has decreased by 4.1% from 8.2% gross margin percentage for the third quarter of 2008. The gross margin percentage reduction of 4.1% was due to under absorption of manufacturing overhead as a result of low production volumes, change in product mix resulting in significant reductions in the light truck and sport utility platforms, an increase in tooling revenues with no associated margin and continuous pricing pressures from customers that continue to be a normal part of the North American automotive parts industry.

The Company will continue its efficiency programs, the utilization of available capacity and the rationalization of operating facilities as necessary.

SELLING, GENERAL & ADMINISTRATIVE

	Year ended December 31			
	2008	**2007**	**Change**	**% Change**
Selling, general and administrative	85,202	108,198	(22,996)	(21.3%)
% of revenues	5.5%	5.4%		

2008 to 2007 comparison

Selling, general and administrative expenses for the year ended December 31, 2008 decreased by $23.0 million due to the finalization 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 increased slightly in 2008 due to a decline in revenues. The Company continues to monitor, manage and rationalize these expenses.

Fourth Quarter 2008 to Fourth Quarter 2007 comparison

Selling, general and administrative expenses for the fourth quarter of 2008 of $17.6 million have decreased by $10 million from $27.6 million in the fourth quarter of 2007 primarily due to the finalization of the Company's integration plan for the TKB facilities and continuing staff reductions in line with decreasing revenues. During the fourth quarter and throughout 2008, the Company was proactively and effectively able to react to the decrease in production volumes by implementing strict cost reduction measures, which included a total reduction in number of employees from 7,100 at the beginning of the year to 4,400 at the end of 2008.

On a percentage of revenues basis selling, general and administrative expenses have decreased to 4.9% from 6% in the fourth quarter of 2007 due to proactive measures taken by the Company as already discussed above. The Company continues to monitor, manage and rationalize these expenses.

Fourth Quarter 2008 to Third Quarter 2008 comparison

Selling, general and administrative expenses for the fourth quarter of 2008 of $17.6 million decreased by $4.8 million as compared to $22.4 million in the third quarter of 2008 primarily on account of continuing staff reductions in line with decreasing revenues as discussed above and a $0.9 million reduction of stock compensation expenses in the fourth quarter of 2008 as compared to the third quarter of 2008. On a percentage of revenue basis, selling, general and administrative expenses decreased to 4.9% in fourth quarter of 2008 as compared to 6.3% in the third quarter of 2008, as a result of cost reduction efforts.

AMORTIZATION OF PROPERTY, PLANT, AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

	Year ended December 31			
	2008	**2007**	**Change**	**% Change**
Amortization of PP&E (Production)	42,718	36,880	5,838	15.8%
Amortization of PP&E (Non Production)	3,443	3,435	8	0.2%
Amortization of Intangible Assets	4,403	4,354	49	1.1%
Total	50,564	44,669	5,895	13.2%

Due to the adoption of the new CICA Handbook Section 3031, Inventories, in 2008 the amortization of PP&E that are directly related to production have been reclassified to total cost of sales.

2008 to 2007 comparison

Amortization expense for the year ended December 31, 2008 has increased by $5.9 million compared to amortization expense for the year ended December 31, 2007 due to the amortization of PP&E previously purchased that are now production ready.

Fourth Quarter 2008 to Fourth Quarter 2007 comparison

Amortization expense for the fourth quarter of 2008 was $14.1 million compared to $11.4 million for the fourth quarter of 2007. The increase in amortization of $2.7 million in the fourth quarter of 2008 compared to the fourth quarter of 2007 is primarily due to the amortization of PP&E previously purchased that are now production ready.

Fourth Quarter 2008 to Third Quarter 2008 comparison

Amortization for the fourth quarter of 2008 was $14.1 million compared to $13.8 million for the third quarter of 2008. The increase of $0.3 million is primarily due to the amortization of PP&E previously purchased that are now production ready.

ADJUSTMENTS TO NET INCOME

As a result of the economic recession in North America that has caused significant production reduction by customers and a number of industry-related developments and risks described below under “Risks and Uncertainties”, and the rationalization of the Company’s manufacturing facilities, the Company recorded a number of unusual items and other items, primarily in the fourth quarter of 2008. The Company believes that it is useful to set out in detail these unusual and other items as they are non-recurring and thus the Company’s financial results for 2008 may not be indicative of future results.

TABLE A

	Year ended December 31		
	2008	**2007**	**Change**
NET EARNINGS (PER CANADIAN GAAP) (A)	(261,088)	60,465	(321,553)
Unusual Items:			
Goodwill Impairment (1)	230,558	-	230,558
Property, Plant and Equipment Impairment (2)	17,733	3,958	13,775
Intangible Asset Impairment (3)	836	-	836
Employee Related Severance Costs(4)	37,445	-	37,445
Restructuring Costs (5)	12,777	-	12,777
Supplier Insolvency Costs (6)	3,372	-	3,372
Deferred Financing Costs (7)	1,243	-	1,243
Other Items:			
Development Costs (8)	5,797	-	5,797
Valuation allowance on Future Tax Assets (9)	2,100	-	2,100
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**311,861**	**3,958**	**307,903**
Tax Impact of above items	(26,533)	(1,428)	(25,105)
TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)	**285,328**	**2,530**	**282,798**
ADJUSTED NET EARNINGS (NON CANADIAN GAAP) (A+B)	**24,240**	**62,995**	
Number of Shares Outstanding – Basic (‘000)	71,826	65,617	
Adjusted Basic Earnings Per Share	0.34	0.96	
Number of Shares Outstanding – Diluted (‘000)	72,508	67,302	
Adjusted Diluted Earnings Per Share	0.33	0.94	

TABLE B

	For the quarter ended December 31		
	2008	**2007**	**Change**
NET EARNINGS (PER CANADIAN GAAP) (A)	(286,520)	11,322	(297,842)
Unusual Items:			
Goodwill Impairment (1)	230,558	-	230,558
Property, Plant & Equipment Impairment (2)	17,733	1,358	16,375
Intangible Asset Impairment (3)	836	-	836
Employee Related Severance Costs (4)	37,445	-	37,445
Restructuring Costs (5)	12,777	-	12,777
Supplier Insolvency Costs (6)	3,372	-	3,372
Deferred Financing Costs (7)	1,243	-	1,243
Other Items:			
Development Costs (8)	5,797	-	5,797
Valuation Allowance on Future Tax Assets (9)	2,100	-	2,100
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**311,861**	**1,358**	**310,503**
Tax impact of above items	(26,533)	(490)	(26,043)
TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)	**285,328**	**868**	**284,460**
ADJUSTED NET EARNINGS (NON CANADIAN GAAP) (A+B)	**(1,192)**	**12,190**	
Number of Shares Outstanding – Basic (‘000)	71,826	70,456	
Adjusted Basic Earnings Per Share	(0.02)	0.17	
Number of Shares Outstanding – Diluted (‘000)	72,426	72,035	
Adjusted Diluted Earnings Per Share	(0.02)	0.17	

(1) Goodwill Impairment

During the fourth quarter of 2008, as part of the annual goodwill impairment assessment, the Company determined that the carrying value of goodwill was impaired as a result of significant and sustained decline in the market capitalization of the Company, the deteriorating macro environment directly impacting the automotive industry and the accelerated and significant decline in production volumes during the fourth quarter of 2008. The goodwill as stated on the balance sheet had resulted from two acquisitions made by the Company in 2002, when market valuations were higher than at present.

The assessment involved using a combination of valuation approaches including a market capitalization approach, a multiples approach and a discounted cash flow approach. The market capitalization approach uses the Company's publicly traded stock price to determine the fair value. The multiples approach uses comparable market multiples to arrive at a fair value and the discounted cash flow method uses revenue and expense projections and risk-adjusted discount rates. The process of determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount rates and other factors. Management concluded that an impairment had occurred, and consequently the Company wrote off the entire carrying value of goodwill through a charge to the consolidated statement of earnings operations in the amount of $230.6 million. The goodwill impairment charge is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, compliance with debt covenants and is not reflective of the Company's ability to generate future profits and cash flows.

(2) Property, Plant and Equipment ("PP&E") Impairment

During the fourth quarter of 2008, the Company determined that the carrying value of certain PP&E was impaired as a result of the deteriorating macro environment directly impacting the automotive industry, the accelerated and significant decline in production volumes during the fourth quarter of 2008 and excess available capacity at certain Company facilities.

As a result of its review, the Company assessed the recoverability of PP&E by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. As the undiscounted future cash flows was less than the carrying amount, the excess of the carrying amount over the estimated fair value was recorded as an impairment charge to the consolidated statement of operations of $17.7 million (2007 - $4.0 million). The PP&E impairment charge is non-cash in nature.

(3) Intangible Asset Impairment

During the fourth quarter of 2008, the Company determined that the carrying amount of certain intangible assets was impaired as a result of the deteriorating macro environment directly impacting the automotive industry.

As a result, the Company assessed the recoverability of intangible assets by determining whether the carrying amount of such assets can be recovered through undiscounted future cash flows. As the undiscounted future cash flows was less than the carrying amount, the excess of the carrying amount over the estimated fair value was recorded as an impairment charge to the consolidated statement of operations of $0.8 million for intangible assets. The intangible asset impairment charge is non-cash in nature.

(4) Employee Related Severance Costs

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 of the plant was expected to occur on April 23, 2009, with an option of the manufacturing operations being extended until approximately July 2010, pending the extension of a contract from one of its customers. However during the fourth quarter of 2008, Martinrea was notified by its customer that there would be no extension of the contract and that the customer would terminate the existing program as of December 23, 2008 and therefore production of KFL's key products would end on that date. As a result of this notice, the Company completed its closure plan for KFL and KFL's production operations ceased on December 31, 2008. The complete wind up is scheduled to be completed by

April 2009. Accordingly the Company incurred a significant amount of severance costs relating to the closure of KFL which were accrued in accordance with the applicable accounting standards in the fourth quarter of 2008.

In addition, severance costs were also incurred at other facilities as a result of the closure of a facility in the UK, and the right-sizing of the Company's Windsor, Ontario and Shelbyville, Kentucky facilities and the accrual of costs related to the scheduled closure of another Canadian facility in 2009.

(5) Restructuring Costs

In response to the significant decline in volumes in the fourth quarter of 2008, lower future forecasted volumes and to realign its operations the Company has taken certain initiatives to prepare for a profitable and sustainable future. In so doing, certain restructuring costs of $12.8 million were incurred during the fourth quarter of 2008. These initiatives include strict cost reduction measures across the entire organization, consolidation of certain facilities, closing of the KFL facility in Kitchener as discussed in "Employee Related Severance Costs" above, the rationalization of excess capacity at certain facilities by moving equipment and programs between facilities and other cash preservation measures.

The Company will incur total restructuring costs of $62.0 to $65.0 million (combining this Item 5 with "Employee Related Severance Costs" in Item 4 above) of which $50.2 million was expensed during 2008 and the remaining amount of $11.8 to 14.8 million will be incurred during 2009 as some costs did not meet the recognition criteria stipulated by GAAP for expense recognition in 2008.

(6) Supplier Insolvency Costs

During 2008, a significant tooling supplier on one of the Company's global programs terminated operations prior to the completion of the tooling program. As a result of the supplier's insolvency, certain unplanned costs were incurred to release product, tooling and dies from tooling suppliers as well as transportation costs for the amount of $3.4 million. These additional costs were required to ensure the timely completion of the global program. Costs of a similar nature may be incurred in the future as key suppliers struggle in this economic environment, although it is not possible to estimate these costs at this time.
See "Risks and Uncertainties-Financial Viability of Suppliers". The Company continues to evaluate both customers and suppliers on a regular basis to determine the risk and reduce the extent of these costs.

(7) Deferred Financing Costs

The balance of deferred financing costs of approximately $1.2 million was written off in the fourth quarter of 2008 due to the amendment of lending arrangements entered into by the Company on December 31, 2008 which qualified as debt extinguishment in accordance with GAAP.

(8) Development Costs

In accordance with Canadian GAAP and the Company's accounting policies, development costs including design engineering, design testing and product prototyping are expensed in the year in which they are incurred. Developmental costs are expensed in the year incurred, unless such costs meet the criteria under GAAP for deferral and amortization. As a result of the uncertainty surrounding precise future production volumes, developmental costs of approximately $5.8 million were expensed as incurred in the current year and quarter December 31, 2008.

(9) ***Valuation Allowance on Future Tax Assets***

During 2008, the Company's valuation allowance increased by $2.1 million against future tax assets in Europe and Mexico and was partially offset by a reduction in the Canadian valuation allowance on pensions. The valuation allowance at December 31, 2008 includes $11.3 million of European non-capital loss carry forwards, $2.6 million of Mexican future tax assets and $3.9 million of Canadian future tax assets relating primarily to unrealized capital losses and pension liabilities.

NET EARNINGS / (LOSS)

	Year ended December 31		
	2008	**2007**	**Change**
Net earnings / (Loss)	(261,088)	60,465	(321,553)
Earnings per common share			
Basic	(3.64)	0.92	(4.56)
Diluted	(3.64)	0.90	(4.54)

2008 to 2007 comparison

The net loss for 2008 of $261.1 million as compared to net earnings of $60.5 million in 2007 was primarily attributable to a $445.4 million revenue reduction in 2008 as a consequence of the North American economic recession that has impacted customer volumes, the deterioration of gross margin percentage discussed above in 2008 as compared to 2007, and the adjustments to net income as discussed earlier in Table A.

Adjusted net earnings for 2008 as calculated in Table A are $24.2 million or $0.34 adjusted earnings per share on a basic and $0.33 adjusted earnings per share on a diluted basis in 2008 as compared to adjusted net earnings for 2007 of $63.0 million or adjusted earnings per share of $0.96 on a basic and $0.94 on a diluted basis. The reduction of adjusted net earnings and adjusted earnings per share in 2008 as compared to 2007 is primarily on account of a $445.4 million revenue reduction in 2008 as compared to 2007 and the deterioration of gross margin percentage discussed above in 2008 as compared to 2007.

Fourth Quarter 2008 to Fourth Quarter 2007 comparison

A net loss of $286.5 million or a loss per share of $3.99 on a basic and diluted basis was realized for the fourth quarter of 2008 as compared to net earnings of $11.3 million or earnings per share of $0.16 on a basic and diluted basis in the fourth quarter of 2007 primarily due to $105.6 million revenue reduction in fourth quarter of 2008 as compared to fourth quarter of 2007, deterioration of gross margin percentage as discussed above for the fourth quarter of 2008 as compared to the fourth quarter of 2007 and the adjustments to net income as discussed earlier in Table B.

The adjusted net loss as calculated in Table B of $1.2 million or $0.02 adjusted loss per share on a basic and diluted basis was realized in the fourth quarter of 2008 as compared to adjusted net earnings for the fourth quarter of 2007 of $12.2 million or adjusted earnings per share of $0.17 on a basic and diluted basis primarily due to a $105.6 million revenue reduction in the fourth quarter of 2008 as compared to the fourth quarter of 2007 and the deterioration of gross margin percentage as discussed above for the fourth quarter of 2008 as compared to the fourth quarter of 2007.

Fourth Quarter 2008 to Third Quarter 2008 comparison

The net loss realized for the fourth quarter of 2008 of $286.5 million or loss per share of $3.99 on a basic and diluted basis as compared to net earnings of $4.2 million or earnings per share of $0.06 on a basic and diluted basis in the third quarter of 2008 was primarily attributable to a $30.4 million production revenue reduction in 2008 as a consequence of the North American economic recession that has impacted customer volumes, the deterioration of gross margin percentage discussed above in the fourth quarter of 2008 as compared to third quarter of 2008, and the adjustments to net income as discussed earlier in Table B.

Adjusted net loss as calculated in Table B would have been $1.2 million or $0.02 adjusted loss per share on a basic and diluted basis in the fourth quarter of 2008 as compared to third quarter of 2008 net earnings of $4.2 million or earnings per share of $0.06 on a basic and diluted basis primarily due to a $30.4 million production revenue reduction in fourth quarter of 2008 as compared to the third quarter of 2008 and the deterioration of gross margin percentage as discussed above for the fourth quarter of 2008 as compared to the third quarter of 2007.

Capital Expenditures

Capital expenditures for the year ended December 31, 2008 totaled $66.4 million compared to $83.5 million for the year ended December 31, 2007. The reduction of capital expenditures in 2008 is part of Company initiatives to reduce capital spending and delay capital expenditures where possible without delaying product launches. The capital expenditures relates to new program launches such as the new Ajax facility and press shops established in Tupelo and Hermosillo. The Company is actively recycling equipment currently owned by the Company to reduce capital spending where possible.

Capital expenditures in the fourth quarter of 2008 of $23.9 million were marginally lower than capital expenditures in the fourth quarter of 2007 of $24.3 million because of new program capital and are completely dependent on the milestones reached and timing of product launches.

The 2008 fourth quarter capital expenditures of $23.9 million are greater than the $17.7 million spent during the third quarter of 2008.

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

	Dec 31-08	Sep 30-08	Jun 30-08	Mar 31-08	Dec 31-07	Sep 30-07	Jun 30-07	Mar 31-07
Sales	**356,852**	**355,481**	**410,861**	**433,827**	**462,549**	**476,212**	**537,924**	**525,776**
Cost of sales	330,155	314,555	357,728	384,571	404,261	410,067	468,748	463,820
Amortization of PP&E (production)	11,936	11,610	10,056	9,116	9,013	9,282	10,004	8,581
Gross profit	**14,761**	**29,316**	**43,077**	**40,140**	**49,275**	**56,863**	**59,172**	**53,375**
Expenses:								
Selling, general and administrative	17,565	22,358	22,104	23,175	27,635	28,792	25,580	26,191
Foreign exchange loss	3,754	(1,233)	497	(844)	397	1,912	1,726	608
Amortization of PP&E (non-production)	1,019	1,112	547	765	1,322	720	706	687
Amortization of intangible assets	1,109	1,099	1,160	1,035	1,058	1,083	1,087	1,126
Asset impairment charge	249,127				1,358			2,600
Restructuring costs	50,222							
Interest on long-term debt	2,321	1,488	1,762	2,094	3,687	3,517	3,048	3,861
Other interest income, net	851	(539)	(396)	(963)	(1,469)	(348)	(564)	(374)
Gain on disposal of capital assets	(170)	(332)	13	(3)	(392)	(329)	(1,253)	(183)

	Dec 31-08	Sep 30-08	Jun 30-08	Mar 31-08	Dec 31-07	Sep 30-07	Jun 30-07	Mar 31-07
Gain on sale of investment in Hy-Drive Technologies Ltd.								(2,205)
	325,798	**23,953**	**25,687**	**25,259**	**33,596**	**35,347**	**30,330**	**32,311**
Earnings before income taxes and non-controlling interest	**(311,037)**	**5,363**	**17,390**	**14,881**	**15,679**	**21,516**	**28,842**	**21,064**
Income taxes (recovery):								
Current	(14,686)	3,433	4,498	4,106	12,713	4,794	8,076	4,621
Future	(9,689)	(2,229)	1,545	854	(8,417)	1,767	1,205	1,741
	(24,375)	**1,204**	**6,043**	**4,960**	**4,296**	**6,561**	**9,281**	**6,362**
Earnings before non-controlling interest	**(286,662)**	**4,159**	**11,347**	**9,921**	**11,383**	**14,955**	**19,561**	**14,702**
Non-controlling Interest	(142)	(29)	9	15	61	(12)	43	44
Net earnings	**(286,520)**	**4,188**	**11,338**	**9,906**	**11,322**	**14,967**	**19,518**	**14,658**
Earnings per share								
Basic	**(3.99)**	**0.06**	**0.16**	**0.14**	**0.16**	**0.23**	**0.30**	**0.23**
Diluted	**(3.99)**	**0.06**	**0.16**	**0.14**	**0.16**	**0.23**	**0.30**	**0.23**
Weighted average number of common shares outstanding								
Basic	**71,826,018**	**71,826,018**	**71,826,018**	**71,826,018**	**70,456,238**	**64,546,897**	**64,026,466**	**62,521,484**
Diluted	**72,426,018**	**72,468,721**	**72,538,309**	**72,626,971**	**72,035,371**	**66,467,516**	**65,967,940**	**65,128,442**

Liquidity and Capital Resources

The Company's financial condition remains strong given its balance sheet, cash on hand, operating cash flow, low cost structure, low level of debt, the continuing profitability of its operations before unusual items, prospects for growth and new program launches. All capital expenditure 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 with its senior lenders 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.

During December 2008, the Company amended its credit agreement for the definition of earnings for purposes of the bank covenant calculations to exclude Kitchener plant closing costs. This amount had been a liability assumed in connection with the acquisition of the TKB operations in 2006, and so was not intended to be included in any covenant calculations. See “Acquisitions-ThyssenKrupp Budd”. As part of the amended credit agreement the Company agreed to a reduction of $84.7 million in available loan facilities as the funding would not be required by the Company for its current business plan. In addition the credit agreement was amended to alter the pricing schedule of loans. Credit spreads were increased by 1.25% on LIBOR and bank acceptance based loans and commitment fees were increased by 0.25%. The cost increases related to higher interest rates and commitment fees will be in part offset by savings from fee reductions resulting from the $84.7 million loan facility reduction and the reduction of base market lending rates by the Bank of Canada and the U.S. Federal Reserve at the current time. As a result of the amendment to the credit agreement and the reduction in the available facilities, the Company wrote-off the remaining deferred financing fees of $1.2 million previously netted against long term debt. See “Unusual Items”. As a result of the amendment, at December 31, 2008 the Company had available to it swing line credits of $10 million and US$10 million, revolving credit lines of $25 million and US$20 million, a term revolving credit line of $67.2 million and a term non-revolving credit line of $43.01 million. The Company has drawn $43.01 million against its term non-revolving credit line and $35 million against the term revolving credit line. The remainder of the facility remains unused at December 31, 2008.

The Company had cash of approximately $61.0 million at December 31, 2008. Cash has increased from $37.1 million at September 30, 2008 primarily due to continuing operational cash flow from operations and working capital reductions attributable to lower revenues, as well as financing of $35.0 million of capital expenditures from the Company’s revolving term facility. The Company generated $55.8 million of cash from operations before unusual items in 2008 as compared to $48.9 million in 2007 reflective of the Company’s ability to generate cash in an extremely challenging environment.

Long-term debt has increased to $121.8 million at December 31, 2008 from $103.2 million at September 30, 2008. During the fourth quarter of 2008, the Company drew down $20 million under the revolving portion of the term facility to finance capital expenditures which has been partially offset by the scheduled loan repayments. The Company has a further $103.7 million available under its senior lending facilities for future borrowings. The Company was in compliance with its loan covenants at December 31, 2008.

The Company is a guarantor under certain tooling finance programs negotiated in 2004 that provide direct financing for the tooling on specific programs. The tool finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of 6 to 18 months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company’s balance sheet. At December 31, 2008 the amount of program financing was $22.9 million. As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company.

The Company had a strong balance sheet as at December 31, 2008, with shareholders’ equity of $517.1 million, despite the net loss incurred in 2008 as a result of unusual and other items that reduced shareholder’s equity from $721.5 million as at December 31, 2007. The Company’s working capital of $186.4 million together with internally generated cash flow and existing financing facilities should be sufficient to cover anticipated working capital needs. As at December 31, 2008, Martinrea’s ratio of current assets to current liabilities was 1.75:1. This is comparable to the prior year ratio of 1.70:1

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 including likely restructuring costs for the Kitchener facility. 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 US$1.0 million to US$104.6 million from US$103.6 million in accordance with the guidance specified in EIC–114, Liability Recognition for Costs Incurred on Purchase Business Combinations ("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 ending 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 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 financial position and results of TKB have been included in the Company's financial statements commencing December 1, 2006.

Acquisition of Certain Assets of SKD Automotive

On February 27, 2009, the Company completed the acquisition of certain assets of the SKD Automotive Group, including a facility in Jonesville, Michigan ("Jonesville") in one transaction and a facility in Mexico City, Mexico ("Mexico City") in a second transaction. The purchase price for Jonesville was US$7 million for the assets purchased, including land, building and equipment, plus raw material and work in progress inventory, less certain payables assumed. The purchase price for Mexico City was US$3 million for the assets purchased, including some land and building, equipment, raw material and work in progress inventory, less certain payables assumed. The total cash payment for the two transactions was approximately US$3.5 million, subject to adjustment for inventory valuation and accounts payable confirmation. The Company has operated each of the facilities since the closing date. Customers of metal forming products include Ford, Honda, Chrysler, General Motors and Volkswagen.

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 Company's success is primarily dependent upon the levels of North American car and light truck production by its customers and the relative amount of content the Company has on their various vehicle programs. OEM production volumes may be impacted by many factors including general economic and political conditions, interest rates, credit availability, energy and fuel prices, international conflicts, labour relations issues, regulatory requirements, trade agreements, infrastructure considerations, legislative changes, and environmental emissions standards and safety issues. A number of economic, industry and risk factors discussed in the Company's Annual Information Form in respect of the year ended December 31, 2008 also affect the Company's success, including such things as summarized further below.

The economic, industry and risk factors discussed in the Company's Annual Information Form in respect of the year ended December 31, 2008 remain unchanged in respect of this MD&A and are restated in this annual MD&A.

The following risk factors, as well as those provided elsewhere in this MD&A and the Company's audited and consolidated financial statements for the year ended December 31, 2008 together with the notes thereto, should be considered carefully. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

North American and Global Economic Conditions

The Company operates in the midst of a significant global recession, which is particularly severe in North America. Current conditions are causing tremendous economic uncertainty. It is uncertain when the recession will end or what the Company's prospects will be once the recession has ended and markets resume to more normal conditions. The continuation of current economic conditions for an extended period of time could have a material adverse effect on the Company's profitability and financial condition.

While the Company believes it has sufficient liquidity and a strong enough balance sheet to survive the current recession, the recession may last longer and/or be more severe than currently anticipated. The continuation of current economic conditions for an extended period of time could have a material adverse effect on the Company's profitability and financial condition.

Automotive Industry Risks

The automotive industry is highly cyclical and dependent on, among other factors, consumer spending and general economic conditions in North America. In 2008 and continuing into 2009, the worsening consumer spending and general economic conditions in North America, and especially in the United States, have led to reduced industry sales and production volumes. A number of characteristics of the current downturn have made it more severe than prior ones, including the disruption of global credit markets since September 2008 and the corresponding reduction in access to credit, particularly for purposes of vehicle financing, the deterioration of housing and equity markets and the resulting erosion of personal net worth, all of which of led to extremely low U.S. consumer confidence, which has a significant impact on consumer demand for vehicles. Industry sales have dropped precipitously and accordingly production has been cut drastically in order to reflect the current, historically low level of demand for vehicles. The continuation of current or lower production volumes and sales levels for an extended period of time could have a material adverse effect on the Company's profitability. Increased emphasis on the reduction of fuel consumption, fuel emissions or greenhouse gas emissions could also reduce demand for automobiles overall or specific platforms on which the Company has product, especially in the light truck segment. There can be no assurance that North American automotive production overall or on specific platforms will not continue to be lower than historical volumes, will not further decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of new North American automobiles overall or by customer or by customer platform may have a material adverse affect on the Company's financial condition and results of operations and ability to meet existing financial covenants.

Dependence Upon Key Customers

Due to the nature of the Company's business, it is dependent upon a few large customers such that cancellation of a significant order by any of these customers, or the loss of any such customers for any reason or the insolvency of any such customers, or reduced sales of automotive platforms of such customers, could significantly reduce the Company's ongoing revenues and/or profits, and could materially and adversely affect the Company's business. In addition, a 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. Most of the Company's sales are in North America to traditional North American OEMs, a sector which has experienced over-capacity, significant competition, "legacy cost" (pension and healthcare liabilities) issues, declining volumes overall and on key platforms, and declining market share. These pressures have contributed to some production losses and pricing pressures for suppliers.

In light of the continuing global recession and its pronounced impact on the automotive industry, governments in various countries have announced or provided financial assistance to OEMs. Governments have attached or may attach stringent conditions to this financial support, including conditions relating to specific restructuring actions such as plant rationalizations, labour reductions, sale or wind-down of vehicle brands, elimination of production and/or other cost-cutting initiatives. There is no assurance that government financial intervention in the automotive industry will be successful to prevent the bankruptcy of one or more OEMs. Since governmental financial intervention in the automotive industry is still at an intermediate stage, it is not yet possible to assess the potential impact on the Company; however, the bankruptcy of any major customer could have a material adverse effect on the Company's profitability and financial condition.

Some of the Company's traditional customers, particularly General Motors and Chrysler, are currently at risk of insolvency if government financial assistance is not given. Notwithstanding any government assistance that has been or may be extended to major customers, such customers may seek bankruptcy protection in order to restructure their business and operations. Since OEMs rely on a highly interdependent network of suppliers, an OEM bankruptcy, absent measures to ensure continued timely payment for shipments from suppliers, could have a "domino effect", causing multiple supplier bankruptcies and thus the complete seizure of the automotive industry for a prolonged period of time, all of which would have a material adverse effect on the Company's profitability and financial condition.

Financial Viability of Suppliers

The Company relies on a number of suppliers to supply a wide range of products and components required in connection with the business. Economic conditions, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors have left many automotive suppliers in varying degrees of financial distress. The continued financial distress or the insolvency or bankruptcy of any such supplier could disrupt the supply of products, materials or components to Martinrea or to customers, potentially causing the temporary shut-down of the Company's or customers' production lines. Any prolonged disruption in the supply of critical components, the inability to re-source production of a critical component from a financially distressed automotive components sub-supplier, or any temporary shut-down of production lines or the production lines of a customer, could have a material adverse effect on profitability. Additionally, the insolvency, bankruptcy or financial restructuring of any critical suppliers could result in incurring unrecoverable costs related to the financial work-out of such suppliers and/or increased exposure for product liability, warranty or recall costs relating to the components supplied by such suppliers to the extent such supplier is not able to assume responsibility for such amounts, which could have an adverse effect on the Company's profitability. While governments have attached or may attach stringent conditions to financing of OEMs that suppliers be paid, or may provide direct financial assistance to suppliers in the form of direct loans, loan guarantees or factoring services, the financial viability of a number of suppliers remains a risk which could have an adverse effect on the Company's profitability.

Competition

The market for fluid handling systems and fabricated metal products and assemblies in both the automotive and industrial sectors is highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources than the Company. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

Cost Absorption and Purchase Orders

Given the current trends in the automotive industry, the Company is under increasing pressure to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling in addition to items previously paid for directly by OEMs. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through amortization in the piece price of the applicable component. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Purchase orders issued by customers typically do not require that they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the design, engineering, prototype, validation and tooling costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, 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.

Material Prices

Prices for key raw materials and commodities used in parts production, particularly steel, resin, paints, chemicals and other raw materials, as well as energy prices, remain at elevated levels compared to levels earlier this decade, with the possibility of further increases in the future. Martinrea has attempted to mitigate its exposure to price increases of key commodities, particularly steel (through participation in steel resale programs); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content, by passing commodity price increases to customers or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also impact on transportation costs and the ability of a plant to deliver product to customer plants on a competitive basis.

Outsourcing and Insourcing Trends

The Company is dependent on the outsourcing of components, modules and assemblies by OEMs. The extent of OEM outsourcing is influenced by a number of factors, including relative cost, quality and timeliness of production by suppliers as compared to OEMs, capacity utilization, and labour relations among OEMs, their employees and unions. As a result of favourable terms in collective bargaining agreements concluded in 2007, the Detroit 3 OEMs may insource some production which had previously been outsourced. Outsourcing of some assembly is particularly dependent on the degree of unutilized capacity at the OEMs' own assembly facilities, in addition to the foregoing factors. A reduction in outsourcing by OEMs, or the loss of any material production or assembly programs coupled with the failure to secure alternative programs with sufficient volumes and margins, could have a material adverse effect on profitability.

Competition with Low Cost Countries

The competitive environment in the automotive industry has been intensifying as customers seek to take wage costs in China, Korea, Thailand, India, Brazil and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost countries. The establishment of manufacturing operations or establishing relationships with firms in emerging market countries carries its own risks, including those relating to political and economic instability; trade, customs and tax risks; currency exchange rates; currency controls; insufficient infrastructure; and other risks associated with conducting business internationally. The loss of any significant production contract to a competitor in low cost countries or significant costs and risks incurred to enter and carry on business in these countries could have an adverse effect on profitability.

Product Warranty, Recall and Liability Risk

Automobile manufacturers are increasingly requesting that each of their suppliers bear the costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have an adverse effect on the Company's operations and financial condition.

Product Development and Technological Change

The automotive industry is currently characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices. The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse affect on the Company's results of operations. 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. There can be no assurance that the Company will be successful in its efforts in these respects.

Dependence Upon Key Personnel

The success of the Company is dependent 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. The Company does not currently maintain key man insurance.

Limited Financial Resources/Uncertainty of Future Financing/ Banking

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Given the current economic crisis, there is increased difficulty in accessing debt or equity financing. Additional equity financings may result in substantial dilution to existing shareholders.

Acquisitions

Although the Company made no acquisitions of businesses in 2008, the Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products. The completion of such transactions poses additional risks to the Company's business. The benefit to the Company of previous and future acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products into the Company. The Company cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Company. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt.

Potential Rationalization Costs

The Company incurred restructuring costs in 2008. In response to the increasingly competitive automotive industry conditions, it is likely that the Company will continue to rationalize some production facilities. In the course of such rationalization, restructuring costs related to plant closings, relocations and employee severance costs will be incurred. Such costs could have an adverse effect on short-term profitability. In addition, while the Company's goal is for every plant to be profitable, there is no assurance this will occur, which will likely result in a rationalizing or closing of the plant. Martinrea is working to turn around any financially underperforming divisions; however, there is no guarantee that it will be successful in doing so with respect to some or all such divisions.

Potential Volatility of Share Prices

The market price of the Company's common shares has been, and will likely continue to be, subject to significant fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares is low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating results, the gain or loss of significant contracts, the financial status of OEMs, announcements of technological or competitive developments by the Company or its competitors, acquisitions or entry into strategic alliances by the Company or its competitors, the gain or loss of a significant customer or strategic relationship, changes in estimates of the Company's financial performance, changes in recommendations from securities analysts regarding the Company, the industry or its customers' industries, and general market or economic conditions.

Changes in Laws and Governmental Regulations

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to the North American Free Trade Agreement or the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States.

Labour Relations Matters

The Company has a significant number of its employees subject to collective bargaining agreements. To date, it has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations.

Potential Litigation

The Company has received, in the past, letters from third parties alleging claims and claims have been made against it. Although such claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. Although the Company is unaware of any material claims against it, there can be no assurance that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements. There can be no assurance that such arrangements will be available on reasonable terms, or at all. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations.

Currency Risk - Hedging

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the U.S. dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To date, the Company has engaged in some exchange rate hedging activities. To the extent the Company may seek to implement more substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

Currency Risk – Competitiveness in Certain Jurisdictions

The appreciation of the Canadian dollar against the U.S. dollar (and other currencies) over the past several years has negatively affected the competitiveness of the Company's Canadian operations in this respect against the operations in the U.S. and Mexico, as well as other jurisdictions, of competitors and the operations of the Company in those jurisdictions. One result affecting the Company has been that some existing work has been moved to the U.S. or Mexico, or work has been sourced to U.S. or Mexican divisions as opposed to Canadian divisions, in order for the Company to remain or become competitive. These work shifts may entail significant restructuring and other costs as work is shifted, as Canadian plants are consolidated, downsized or closed, or as plants in the U.S. or Mexico are expanded.

Fluctuations in Operating Results

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers, pricing policies or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns or limitations on spending.

Under-funding of Pension Plans

The Company's pension plans acquired as a result of the TKB Acquisition had an aggregate funding deficiency as at the latest measurement date of December 31, 2008, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2008, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund significant amounts in 2009. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Notes 7 ("Other Long Term Assets") and 11 ("Pension Benefits") to the Company's Annual Financial Statements, which reflect the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2008.

Post-Employment Benefits

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2008, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2009 are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 8 ("Other Long Term Assets") and Note 12 ("Other Post-Employment Benefits"), which reflect the financial position of the Company's post employment benefits other than pension plans at December 31, 2008.

Disclosure of Outstanding Share Data

As at March 30, 2009 the Company had 72,426,018 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 30, 2009, options and warrants to acquire 6,143,833 common shares were outstanding.

Contractual Obligations and Off Balance Sheet Financing

At December 31, 2008, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	Less than 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Thereafter**	**Total**
Operating leases with third parties	$12,185	$12,585	$11,718	$6,471	$4,291	$6,559	$53,809
Rent Commitments	11,874	9,042	8,763	8,887	4,602	105,496	148,664
Long-term debt	20,428	15,132	80,167	5,937	128	-	121,792
Purchase obligations (i)	88,223	3,270	2,023	403	330	-	94,249
Pension funding & post-employment benefit payments	19,200						19,200
Total contractual obligations	**$151,910**	**$40,029**	**$102,671**	**$21,698**	**$9,351**	**$112,055**	**$437,714**

(i) The Company had no purchase obligations other than those related to inventory, services, tooling and fixed assets in the ordinary course of business.

Future contractual obligations also include pension funding obligations and post-employment benefit payments. Pension funding requirements for 2009 as determined by the Company's actuaries are expected to be $14.5 million. Post-employment benefit payments in 2009 are expected to be $4.7 million. Pension funding and post-employment benefit payment requirements beyond 2008 have been excluded due to the uncertainty as to the amount and timing of these obligations.

The Company utilizes certain financial instruments, principally forward currency exchange contracts to manage the risk associated with fluctuations in currency exchange rates. The Company's policy does not utilize financial instruments for trading or speculative purposes. Forward currency exchange contracts are used to reduce the impact of fluctuating exchange rates on the Company's foreign denominated revenues and the Company's purchases of materials and equipment. Gains and losses on forward foreign exchange contracts are reflected in the consolidated financial statements in the same period as the hedged item. In the event that a hedged item is sold or cancelled prior to the termination of the related hedging item, any unrealized gain or loss on the hedging item is immediately recognized in income.

As at December 31, 2008, the Company has committed to sell a total of US$23.3 million at an average exchange rate of 1.1618 with maturity dates ranging from January 2009 to December 2009.

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 December 31, 2008, the amount of program financing was $22.9 million. The maximum amount of undiscounted future payments the Company could be required to make under the guarantee is $22.9 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.

Related Parties

A director of the Company was also a director and officer of a Company which purchased $1.2 million of products from the Company for the year ended December 31, 2008 (2007 - $2.9 million). These sales were in the normal course of business and were at fair market value. During 2008, the Company also advanced loans to some of its principal officers and employees with interest charged at market rates. These loans are recorded in other receivables and were used to purchase shares of the Company from the open market. The loans are repayable by December 2010.

Effectiveness of Disclosure Controls and Internal Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2008, based on the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109--Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective to ensure that the information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation. Under the supervision of the CEO and CFO, the Company has 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 GAAP. This design evaluation included documentation activities, management inquiries and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business. Based on that evaluation, the CEO and the CFO concluded that the design and operating effectiveness of internal control over financial reporting was effective as at December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There have been no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control 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 amount.

Management evaluates property, plant and equipment 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 property, plant and equipment 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 carrying amount 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, in-sourcing 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 December 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 $32.9 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 December 31, 2008, the Company had gross income tax loss carry-forwards of approximately $137.3 million. Of these total losses, approximately $51.0 million relate primarily to operations in Europe. The tax benefits of $44.8 million of these European losses have not been recognized in the Company's consolidated financial statements. Of the total losses, $129.9 million expire between 2011 and 2028 and the remainder have no expiry date.

At December 31, 2008, the Company had net capital loss carry-forwards of approximately $4.8 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 2008, the Company used the following assumptions to determine the stock-based compensation expense under the Black-Scholes option pricing model: risk free interest rate – 2.9 %, expected life –
4 years and expected volatility - 39%.

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 11 and 12 to the Company's 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 11 and 12 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.

Reserve for Doubtful Accounts

The Company establishes an appropriate provision for non-collectible or doubtful accounts. Estimates of recoverable amounts are based on best estimates of the amount a customer will pay. Actual amounts received may be affected by various factors, including the resolution of disputed amounts and the customer's financial condition. As at December 31, 2008 the Company had a reserve for doubtful accounts of $4.5 million.

Provision for Inventory

The valuation of inventory requires an estimate of obsolete or damaged inventory. A review has been conducted by the Company to determine this amount and an estimated provision for inventory of $7.4 million has been recognized as at December 31, 2008.

Reserves for Severance and Restructuring Costs

The Company has accrued an amount for severance and other restructuring costs using its best estimates of the amounts owed by the Company. Actual amounts payable may vary based on final negotiations. At December 31, 2008 the Company had accrued an amount of $38.6 million towards restructuring costs.

New Accounting Policies adopted in 2008 and 2007:

Effective January 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants Handbook section 3031 on Inventories, section 1535 on Capital Management, section 3855 and section 3861 to Section 3863 relating to Financial Instruments, Section 1530 on Comprehensive Income and Section 3251 for Equity. The impacts of these sections on the Company's financial statement s are discussed in Note 1(v).

Recently Issued Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that significantly affects financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

During 2008 a detailed project plan with expected milestones was established and approved by the steering committee appointed by senior management. To date, all required milestones have been achieved and going forward the Company expects to meet all milestones leading up to the conversion in 2011. The Company has allocated sufficient resources and included in its project plan training required for both the conversion team and all impacted employees of the organization.

During 2009 the Company expects to achieve the milestones of finalizing its policy selections, new financial statement templates and IFRS 1 elections through approval by senior management and the audit committee. Moving forward into 2010 the Company expects to finalize the quantification of the impact of the changes to the financial statements in preparation for the 2011 conversion.

The Company is completing a preliminary assessment of the accounting and reporting, IT systems and processes, and business implications of this conversion; however, management has not yet finalized its determination of the impact of these differences. As this assessment is finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

Goodwill and intangible assets

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is assessing the impact of the new standard on its consolidated financial statements.

Business Combinations

In October 2008, the CICA issued Handbook Section 1582, Business Combinations ("CICA 1582"), concurrently with Handbook Sections 1601, Consolidated Financial Statements ("CICA 1601"), and 1602, Non-controlling Interests ("CICA 1602"). CICA 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its consolidated financial statements.

Credit risk and fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC Abstract 173, ”Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The EIC requires the Company to take into account the Company’s own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is assessing the impact of the new standard on its financial statements.

Selected Annual Information

The Company as of January 1, 2006 was one of the largest fluid management systems groups in North America, was a growing metal former developing world class stamping, hydroforming and metal forming facilities and was a growing Tier 1 automotive supplier to major original equipment manufacturers or OEMs.

Revenues for the year ended December 31, 2008 totaled $1,557.0 million as compared to $2,002.5 million for the year ended December 31, 2007. The decrease in revenues was primarily due to substantial declines in volumes on North American light vehicle platforms, particularly light truck and large sport utility platforms. Net earnings for the year ended December 31, 2008 were approximately ($261.1) million versus $60.5 million for the year ended December 31, 2007. This decrease is primarily attributable to the one time charges described under “Unusual Items” above.

The revenues and net earnings comparison of 2008 versus 2007 is discussed above.

No dividends were declared in the above periods, given the investments in tooling and capital required to support the Company's growth during this timeframe.

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2008, December 31, 2007 and December 31, 2006.

Fiscal Period Ended

	2008	2007	2006
Sales	1,557,021	2,002,461	871,506
Earnings from continuing operations	(273,403)	87,101	59,492
Net earnings	(261,088)	60,465	38,286
Net earning per share			
Basic	(3.64)	0.92	0.63
Diluted	(3.64)	0.90	0.62
Total assets	1,056,798	1,319,404	1,428,619
Total long-term interest bearing debt	101,364	81,028	192,379
Dividends declared	Nil	Nil	Nil

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 challenges of the industry have been exacerbated by the current economic recession and the financial distress in the industry involving both OEMS and suppliers. The Company believes that the long term outlook of the automotive industry overall is very challenging in the near term, and recovery of the overall North America market will take time. The second half of 2008 witnessed a significant decline in North American vehicle production volumes due to a drop in consumer demand for light vehicles primarily as a result of high oil prices, falling equity and home values, the global credit crisis and lack of credit availability, higher unemployment, negative economic trends, falling consumer confidence and related factors. Conditions in the North American auto industry continue to be extremely difficult. The Company expects that vehicle production in North America for the first half of 2009 will be similar to or lower than the second half of 2008.

There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium and longer term, and who survive current automotive and economic crises. 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. The Company believes that an industry slow-down or consolidation can 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. 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 and 2008, the Company focused on integrating its acquisitions and continued with its traditional strategic focus. The Company will continue to pursue its strategies in 2009 and beyond with a view to increasing revenues and profits over the longer term.

Forward-Looking Information

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 continuation of monitoring, managing and rationalization of expenses, the expected wind up date of KFL, the Company's expectation regarding the financing of future capital expenditures, the Company's views of the likelihood of tooling supplier default, the Company's views on the long term outlook of the automotive industry, the Company's ability to capitalize on opportunities in the automotive industry as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "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 following factors, which are discussed in greater detail in the "Risk and Uncertainties" section of this MD&A:

- North American and global economic conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers, which are currently experiencing severe financial challenges;
- financial viability of suppliers;
- Martinrea's reliance on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and in-sourcing trends;
- competition with low costs countries;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results
- under-funding of pension plans; and

- the cost of post-employment benefits.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements for Martinrea International Inc. are the responsibility of management and have been prepared in accordance with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgment. In addition, all other information contained in this annual report to shareholders is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors is ultimately responsible for overseeing management's performance of it financial reporting responsibilities. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, at least once a year to review among other things accounting policies, internal controls over the financial reporting process, annual financial statements, the results of the external audit examination and the Management Discussion and Analysis included in this report to shareholders. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the Financial Statements.

(Signed) Fred Jaekel
Chief Executive Officer

(Signed) Nick Orlando
President & Chief Financial Officer

Vaughan, Ontario
March 30, 2009

KPMG LLP
Chartered Accountants
Yonge Corporate Center
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Martinrea International Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 24, 2009

MARTINREA INTERNATIONAL INC.
Consolidated Balance Sheets

December 31, 2008 and 2007
(in thousands of dollars)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 60,965	$ 48,008
Accounts receivable	213,575	285,123
Other receivables	7,637	10,644
Income tax recoverable	16,035	-
Inventories (note 3)	132,084	168,878
Prepaid expenses and deposits	5,131	3,670
	435,427	516,323
Future income tax assets (note 13)	55,651	36,938
Property, plant and equipment (note 5)	428,979	378,064
Goodwill (note 6)	-	230,558
Intangible assets (note 6)	20,502	25,233
Other long-term assets (note 7)	116,239	132,288
	$ 1,056,798	$ 1,319,404
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 228,553	$ 268,521
Income taxes payable	-	17,691
Current portion of long-term debt (note 10)	20,428	18,590
	248,981	304,802
Long-term debt (note 10)	101,364	81,028
Pension and other post-retirement benefits (notes 11 and 12)	165,367	191,326
Future income tax liabilities (note 13)	22,789	19,418
Non-controlling interest	1,218	1,364
Shareholders' equity:		
Share capital (note 14)	629,052	629,052
Notes receivable for share capital (note 14)	(2,700)	(2,700)
Contributed surplus (note 15)	34,478	29,337
Accumulated other comprehensive loss	(13,212)	(65,277)
Retained earnings (deficit)	(130,539)	131,054
	517,079	721,466
Guarantees and commitments (note 21)		
Subsequent events (note 22)		
	$ 1,056,798	$ 1,319,404

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Fred Jaekel" Director

"Robert Wildeboer" Director

MARTINREA INTERNATIONAL INC.
Consolidated Statements of Operations

For the years ended December 31, 2008 and 2007
(in thousands of dollars, except per share amounts)

		2008		2007
Sales	$	1,557,021	$	2,002,461
Cost of sales (excluding amortization of property, plant and equipment)		1,387,009		1,746,896
Amortization of property, plant and equipment (production) (note 5)		42,718		36,880
Total cost of sales		1,429,727		1,783,776
Gross profit		127,294		218,685
Expenses:				
Selling, general and administrative		85,202		108,198
Foreign exchange loss		2,174		4,643
Amortization of property, plant and equipment (non-production) (note 5)		3,443		3,435
Amortization of intangible assets (note 6)		4,403		4,354
Impairment charge on goodwill, intangible assets and plant and equipment (notes 5 and 6)		249,127		3,958
Restructuring costs (note 8)		50,222		-
Interest on long-term debt		7,665		14,113
Other interest income, net		(1,047)		(2,755)
Gain on disposal of property, plant and equipment		(492)		(2,157)
Gain on sale of investment in Hy-Drive Technologies Ltd. (note 4)		-		(2,205)
		400,697		131,584
Earnings (loss) before income taxes and non-controlling interest		(273,403)		87,101
Income taxes (recovery) (note 13):				
Current		(2,649)		30,204
Future		(9,519)		(3,704)
		(12,168)		26,500
Earnings (loss) before non-controlling interest		(261,235)		60,601
Non-controlling interest		(147)		136
Net earnings (loss)	$	(261,088)	$	60,465
Earnings (loss) per common share (note 16):				
Basic	$	(3.64)	$	0.92
Diluted		(3.64)		0.90

See accompanying notes to consolidated financial statements.

MARTINREA INTERNATIONAL INC.
Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2008 and 2007
(in thousands of dollars)

		2008		2007
Net earnings (loss)	$	(261,088)	$	60,465
Other comprehensive income, net of tax:				
Unrealized gain / (loss) on translation of financial statements of self-sustaining operations		52,065		(52,781)
Unrealized loss up to the date of disposal on assets available for sale, net of income tax of $0 (2007 - $18)		-		(87)
Reclassification adjustment for gains on assets available for sale transferred to net earnings, net of income tax of $0 (2007 - $376)		-		(1,829)
Other comprehensive income / (loss)		52,065		(54,697)
Comprehensive income / (loss)	$	(209,023)	$	5,768

See accompanying notes to consolidated financial statements.

MARTINREA INTERNATIONAL INC.
Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2008 and 2007
(in thousands of dollars)

	Share capital	Notes receivable for share capital	Contributed Surplus	Accumulated other comprehensive income	Retained Earnings	Total
Balances, December 31, 2006	493,358	(6,750)	25,632	(12,496)	70,589	570,333
Change in accounting policies (note 1(v))	-	-	-	1,916	-	1,916
As restated, January 1, 2007	493,358	(6,750)	25,632	(10,580)	70,589	572,249
Net earnings	-	-	-	-	60,465	60,465
Share issue in private placement (net of share issue costs of $5,365 and future tax recovery of $1,718)	123,228	-	-	-	-	123,228
Exercise of employee options and warrants	12,466	-	(2,649)	-	-	9,817
Compensation expense related to stock options	-	-	6,354	-	-	6,354
Repayment of note receivable for share capital	-	4,050	-	-	-	4,050
Other comprehensive loss	-	-	-	(54,697)	-	(54,697)
Balances, December 31, 2007	629,052	(2,700)	29,337	(65,277)	131,054	721,466
Change in accounting policies (note 1 (v))	-	-	-	-	(505)	(505)
As restated, January 1, 2008	629,052	(2,700)	29,337	(65,277)	130,549	720,961
Net loss	-	-	-	-	(261,088)	(261,088)
Compensation expense related to stock options	-	-	5,141	-	-	5,141
Other comprehensive income	-	-	-	52,065	-	52,065
Balances, December 31, 2008	$ 629,052	$ (2,700)	$ 34,478	$ (13,212)	$ (130,539)	$ 517,079

See accompanying notes to consolidated financial statements.

MARTINREA INTERNATIONAL INC.
Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007
(in thousands of dollars)

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ (261,088)	$ 60,465
Items not involving cash:		
Amortization of property, plant and equipment (note 5)	46,161	40,315
Amortization of intangible assets (note 6)	4,403	4,354
Impairment charge on goodwill, intangible assets and plant and equipment (note 5 and 6)	249,127	3,958
Amortization of deferred financing costs	1,672	428
Unrealized losses on foreign exchange forward contracts	1,286	51
Future income taxes	(9,519)	(3,704)
Non-controlling interest	(147)	136
Gain on disposal of property, plant and equipment	(492)	(2,157)
Gain on sale of investment in Hy-Drive Technologies Ltd. (note 4)	-	(2,205)
Stock-based compensation	5,141	6,354
Pension and other post-employment benefits	5,052	6,322
Contribution made to pension and other post-employment benefits	(20,013)	(22,613)
	21,583	91,704
Changes in non-cash working capital items:		
Accounts receivable	89,462	30,706
Other receivables	3,898	(5,092)
Inventories	40,796	1,240
Prepaid expenses and deposits	(1,461)	4,413
Accounts payable and accrued liabilities	(58,892)	(81,396)
Income taxes payable / recoverable	(39,549)	7,334
	55,837	48,909
Financing activities:		
Issue of share capital (net of share issuance costs) (note 14)	-	121,510
Repayment of notes receivable for share capital	-	4,050
Exercise of warrants and employee options	-	9,817
Increase in long-term debt	36,265	15,028
Repayment of long-term debt	(18,995)	(135,305)
	17,270	15,100
Investing activities:		
Finalization of ThyssenKrupp Budd acquisition (net of cash acquired, and acquisition costs)	-	(944)
Purchase of property, plant and equipment	(66,402)	(83,475)
Proceeds on disposal of property, plant and equipment	1,207	7,276
Proceeds on disposal of investment in Hy-Drive Technologies Ltd. (note 4)	-	3,745
	(65,195)	(73,398)
Effect of foreign exchange rate changes on cash and cash equivalents	5,045	(6,099)
Increase / (decrease) in cash and cash equivalents	12,957	(15,488)
Cash and cash equivalents, beginning of year	48,008	63,496
Cash and cash equivalents:		
Cash	37,113	24,321
Money market funds	23,852	23,687
Cash and cash equivalents, end of year	$ 60,965	$ 48,008
Supplemental cash flow information:		
Cash paid for interest, net	$ 4,547	$ 10,478
Cash paid for income taxes, net	$ 23,161	$ 23,509

See accompanying notes to consolidated financial statements.

(in thousands of dollars, except per share amounts)

Martinrea International Inc. (the "Company") was incorporated under the Ontario Business Corporations Act on February 9, 1987. It designs, engineers, manufactures and sells quality metal parts, assemblies and fluid management systems and is focused on the automotive sector.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

The consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The going concern basis of presentation reflects the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. It is management’s responsibility to assess and disclose the Company ’s ability to continue as a going concern.

The Company faces certain uncertainties in the upcoming year related to the automotive industry, and concentration of credit risk (note 17(a)). As described in note 19, for the year ended December 31, 2008, sales to its four largest customers which are predominately comprised of sales to GM, Ford, and Chrysler (the “Detroit 3”) represented 90% of the Company ’s total sales. The uncertainty around the ability of one or more of the Detroit 3 to satisfy their financial obligations to the Company and the potential for these customers to seek bankruptcy protection in order to restructure their operations, represents a material risk to the Company. In addition, the uncertainty related to the future operations of the Detroit 3 represents a material risk to the Company ’s future revenues, profitability and ability to comply with existing financial covenants on a go forward basis that may require further adjustments to the Company's strategy.

The Company has historically conducted a review of its manufacturing facilities as to profitability and future prospects on a regular basis that have resulted in plant closures. If any additional adverse changes arise in the automotive industry then the Company will adjust manufacturing capacity accordingly.

(b) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and those of its subsidiaries. The results of subsidiaries are consolidated from their respective dates of acquisition. All inter-company transactions and balances have been eliminated on consolidation.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on deposit, amounts deposited in money market funds, and term deposits maturing within 90 days of acquisition and are valued at fair value.

(d) Revenue recognition:

Revenue from the sale of manufactured products is recognized when the price is fixed or determinable, collectibility is reasonably assured and upon shipment to, or receipt by, customers (depending on contractual terms) and acceptance by customers at which time a provision for estimated returns is established.

Separately priced tooling and engineering services are accounted for as a separate revenue element in circumstances where the tooling and engineering has value to the customer on a stand alone basis and there is objective and reliable evidence of the fair value of the subsequent parts production. Revenues from engineering and tooling contracts are recognized on a completed contract basis. The contract is determined to be complete when the tool has been inspected and accepted by the customer.

(e) Inventories:

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Cost includes the cost of raw materials, direct labour and the applicable share of manufacturing overhead which includes the amortization of production plant and equipment.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, Inventories, as described in note 1(v).

(f) Property, plant and equipment:

Property, plant and equipment ("PP&E") are recorded at cost, net of related investment tax credits, less accumulated amortization. Interest costs relating to major capital expenditures are capitalized when interest costs are incurred before the PP&E is placed into productive use. Amortization is provided for over the estimated useful lives of PP&E at the following rates and basis:

Asset	Basis	Rate
Buildings and improvements	Declining balance	4%
Leasehold improvements	Straight line	Lessor of estimated useful life and lease term
Manufacturing equipment	Declining balance	15%
Stamping equipment	Straight line	7-10%
Tooling and fixtures	Straight line	Life of program
Motor and delivery vehicles	Declining balance	30%
Office and computer equipment	Declining balance	20%

Construction-in-progress and spare parts are not amortized until the related assets are placed into productive use.

PP&E are tested for impairment as described in note 1(p).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investments:

On January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement. As a result of this adoption, long-term investments are classified as financial assets available-for-sale and measured at fair value with changes in fair value recognized in other comprehensive income.

(h) Research and development costs:

Research costs, including costs of market research and new product prototyping during the marketing stage, are expensed in the year in which they are incurred. Development costs are expensed in the year incurred, unless such costs meet the criteria under Canadian GAAP for deferral and amortization. No such amounts have been capitalized in 2007 or 2008.

(i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit including goodwill exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination.

The Company tested goodwill for impairment during 2008 and recorded an impairment charge of $230,558 (note 6).

(j) Intangible assets:

The Company's intangible assets are comprised of customer contracts acquired in acquisitions and have a finite useful life. The Company regularly evaluates existing intangible assets including estimates of remaining useful lives.

Customer contracts are amortized over their estimated economic life of up to 10 years on a straight line basis which approximates a pro-rata basis consistent with the relative contract value initially established.

(k) Stock-based compensation:

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based action awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options. Actual forfeitures are accounted for as they occur. When the stock options are exercised, capital stock is increased by the sum of the consideration paid, and the carrying value of the stock option is recorded to contributed surplus.

(l) Foreign currency translation:

The functional currency of the vast majority of the Company's subsidiaries is either the Canadian dollar or US dollar.

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses denominated in foreign currencies are translated at rates of exchange prevailing on transaction dates, with any exchange gain or loss being recorded in the consolidated statement of operations.

The Company's foreign subsidiaries are defined as self-sustaining. Revenue and expense items including depreciation and amortization, are translated at the average exchange rates for the year. All assets and liabilities are translated at year-end exchange rates and any resulting exchange gains or losses are included in shareholders' equity as part of accumulated other comprehensive income. Movements in the accumulated other comprehensive income during the year results from the changes in the value of the Canadian dollar in comparison to the US dollar and the Mexican peso.

(m) Deferred charges:

On adoption of CICA Handbook Section 3855 , Financial Instruments - Recognition and Measurement, deferred financing fees are netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. During 2008, deferred financing fees were written down to $0 as a result of an amendment to the credit agreement discussed in note 9.

(n) Income taxes:

The Company applies the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax laws and rates is recognized in earnings in the year that includes the enactment date.

The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the year in which the temporary differences and loss carry forwards become deductible. Future tax assets are evaluated, and if their realizability is not "more likely than not", a valuation allowance is provided.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Earnings (loss) per share:

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the year. Diluted earnings per share are computed similar to basic earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

(p) Impairment of long-lived assets:

The Company reviews long-lived assets, which include PP&E and intangible assets with finite useful lives, for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

The Company tested long-lived assets with finite useful lives for impairment during 2008 and recorded an impairment charge of $17,733 (2007 - $3,958) related to PP&E as discussed in note 5 and $836 (2007 - $0) related to customer contracts as discussed in note 6.

(q) Asset retirement obligations:

The Company accounts for asset retirement obligations in accordance with CICA Handbook Section 3110, Asset Retirement Obligations. The standard addresses the recognition and measurement of legal obligations associated with the retirement of capital assets when those obligations result from the acquisitions, construction, development or normal operation of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the obligation is increased for the passage of time and adjusted for revisions to the amount or timing of the underlying cash flows needed to settle the obligation. The cost is amortized into earnings subsequently on the same basis as the related asset.

(r) Guarantees:

The Company accounts for guarantees in accordance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement. A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on: (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due. Guarantees are reported at fair value.

(s) Variable interest entities:

Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15") establishes criteria to identify variable interest entities ("VIE") and the primary beneficiary of such entities. Entities that qualify as VIEs must be consolidated by their primary beneficiary. The Company has concluded that it does not have to consolidate any interest under AcG-15.

(t) Pension and other post-employment benefits:

The Company accrues its obligation under employee benefit plans and related costs net of plan assets. The accrued benefit obligations and the benefit costs are actuarially determined using the projected benefit method pro-rated on services which incorporates management's best estimate of future salary levels, other cost escalations, retirement ages of employees and other actuarial factors. Cumulative gains and losses (such as adjustments arising from experience gains and losses and changes in assumptions) in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the expected remaining service period of active members expected to receive benefits under the plans.

The Company also provides for other post-employment benefits upon retirement for employees and the dependents. The cost of these benefits is accrued over the service lives of the employees based on actuarial estimates.

(u) Use of estimates:

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates and assumptions. Significant areas requiring the use of management estimates include the net realizable values of inventories, the fair value of goodwill and the determination of impairment thereon, the economic lives of intangible assets, the recoverability of future income tax assets, the determination of fair values of financial instruments, as well as the determination of stock-based compensation. Actual results could differ from those estimates.

(v) Accounting changes:

The following are accounting changes implemented in the prior two years which have not already been included in the previous accounting policies notes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories:

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, Inventories, which addresses the measurement and disclosure of inventories and is consistent with International Financial Reporting Standards. 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. Amortization of production plant and equipment is now included in the cost of inventory, and the application of fixed manufacturing overheads is now based on normal capacity. The Company adopted the standard on a prospective basis and recorded an adjustment to opening retained earnings of $505. The Company also reclassified spare parts valued at $6,906 from other inventory to PP&E and included amortization on production related property, plant and equipment as part of total cost of sales in accordance with the new standards.

Capital Management:

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The Company has complied with the new disclosure requirements as presented in note 17.

Financial Instruments:

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and CICA Handbook Section 3863, Financial Instruments – Presentation, which replaces CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standards require increased disclosure of risks associated with recognized and unrecognized financial instruments and how those risks are managed. The standards carried forward the former presentation requirements of Section 3861. The Company has complied with the new disclosure requirements as presented in note 17.

Effective January 1, 2007, the Company adopted the new CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation.

Section 3861, Financial Instruments – Disclosure and Presentation, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed. Under the new standards, policies followed for years prior to the effective date are generally not reversed; therefore, the comparative figures have not been restated except for the requirement to restate the currency translation adjustment as part of other comprehensive income.

Section 3855, Financial Instruments – Recognition and Measurement, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held for trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value and changes in fair value are recorded in other comprehensive income until the investment is derecognized or impaired.

Under adoption of these new standards, the Company designated its cash and cash equivalents as held for trading. Long-term investments are designated as available-for-sale. Cash and cash equivalents and long-term investments are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank advances, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The Company elected to designate the long term note receivable (note 7) as held for trading and consequently measure it at fair value. The Company has also elected to amortize all its transaction costs related to long-term debt over the life of the debt using the effective interest rate method.

The adoption of these sections is done retroactively without restatement of the consolidated financial statements of prior periods. As a result of the adoption of these standards, the Company has made the following changes:

The investment in Hy-Drive Technologies Ltd. was classified as an available-for-sale financial asset and is measured retroactively at fair market value. Previously, this investment was recorded at cost. On January 1, 2007, the impact of $1,916 (net of tax) on these changes in accounting policies was included in the opening balance of accumulated other comprehensive income.

Comprehensive Income:

Effective January 1, 2007, the Company adopted the new CICA Handbook Section 1530, Comprehensive Income which establishes standards for reporting and presenting comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources while other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings calculated in accordance with Canadian GAAP. Under the adoption of the new standard, the cumulative translation adjustment balance as at December 31, 2006 represents the opening balance of accumulated other comprehensive income as shown in the consolidated statements of changes in shareholders' equity.

Equity:

Effective January 1, 2007, the Company adopted the new CICA Handbook Section 3251, Equity, which establishes standards for the presentation of equity and changes in equity during the reporting period. This section requires an enterprise to present a separate component of equity for each category of equity that is of a different nature.

(in thousands of dollars, except per share amounts)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Recently issued accounting pronouncements:

Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is assessing the impact of the new standard on its consolidated financial statements.

Business Combinations:

In October 2008, the CICA issued Handbook Section 1582, Business Combinations ("CICA 1582"), concurrently with Handbook Sections 1601, Consolidated Financial Statements ("CICA 1601"), and 1602, Non-controlling Interests ("CICA 1602"). CICA 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its consolidated financial statements.

Credit risk and fair value of financial assets and financial liabilites:

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is assessing the impact of the new standard on its financial statements.

International Financial Reporting Standards ("IFRS"):

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that significantly affects financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010. 1

The Company is completing a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

NOTE 2: ACQUISITIONS

ThyssenKrupp Budd Company

On December 1, 2006, the Company purchased the automotive body and chassis operations of ThyssenKrupp Budd Company. The purchase price was initially determined to be approximately US$103,000 ($120,438) less cash acquired of $14,284 and acquisition costs of $2,503. During 2007, the Company finalized the purchase price and the purchase price allocation related to the acquisition of ThyssenKrupp Budd Company. It concluded that the actual purchase price was US$103,834 ($121,382) less cash acquired of $12,507 and acquisition costs of $2,503. The results of the acquired operations have been consolidated into the Company effective December 1, 2006.

Management's determination of the final purchase price allocation of the fair market value of the assets acquired and liabilities assumed as finalized in 2007, is detailed below:

		Total
Accounts receivable		182,028
Inventories		118,971
Prepaid expenses and deposits		2,587
Capital assets		105,516
Customer contracts		6,603
Note receivable		155,348
Future income tax assets		17,700
Accounts payable and accrued liabilities		(249,530)
Pension and other post-employment benefits		(234,648)
	$	104,575
Total consideration was paid as follows:		
Cash (net of cash acquired of $12,507)	$	107,078
Cost of acquisition		(2,503)
	$	104,575

(in thousands of dollars, except per share amounts)

NOTE 2: ACQUISITIONS (CONTINUED)

The following table details the activity in the accrued restructuring liability set up in the above purchase equation:

	December 31, 2007	Cash Payments and Reversals	December 31, 2008
Lease and other contract obligations	$ 650	$ (650)	$ -
	$ 650	$ (650)	$ -

The restructuring charges were included in the accounts payable and accrued liabilities acquired.

NOTE 3: INVENTORIES

	2008	2007
Raw materials	$ 46,844	$ 52,197
Work in progress	23,254	23,781
Finished goods	31,289	29,468
Tooling work in progress and other inventory	30,697	63,432
	$ 132,084	$ 168,878

With adoption of CICA Handbook Section 3031, Inventories, on January 1, 2008, the Company recognized a decrease in the carrying amount of its inventory of $505 on transition to meet the new measurement requirements. The Company adopted the new standard on a prospective basis with an adjustment to opening retained earnings of $505. The Company also reclassified spare parts valued at $6,906 from other inventory to PP&E and included amortization on production related property, plant and equipment as part of total cost of sales in accordance with the new standards.

NOTE 4: INVESTMENT IN HY-DRIVE TECHNOLOGIES LTD. ("Hy-Drive")

On February 1, 2005, the Company subscribed to 1,000,000 common shares and additional warrants of Hy-Drive for $800, plus related costs of $35. On May 9, 2006, the Company sold 1,000,000 common shares for net proceeds of $3,731, resulting in a gain of $2,896. On May 24, 2006, the Company exercised 1,600,000 warrants and purchased 1,600,000 common shares for $1,780. On September 20, 2006, the Company sold 600,000 shares for net proceeds of $2,298, resulting in a gain of $1,818. On September 24, 2006, the Company exercised 400,000 warrants and purchased 400,000 common shares for $760. On October 24, 2006, the Company sold 400,000 shares for net proceeds of $1,561, resulting in a gain of $1,041.

During 2007, with the adoption of CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company recognized an increase in the carrying value amount of its investment in Hy-Drive of $2,205 since the investment was classified as available-for-sale upon adoption. The Company recorded a corresponding charge to accumulated other comprehensive income net of income taxes of $376.

In January 2007, the Company sold 900,000 common shares of Hy-Drive for net proceeds of $3,407, resulting in a gain of $2,057 ($1,706 net of tax). In February 2007, the Company sold its remaining 100,000 common share interest in Hy-Drive for net proceeds of $338, resulting in a gain of $148 ($123 net of tax).

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

At December 31, 2008:	Cost	Accumulated amortization	Net book value
Land	$ 10,031	$ -	$ 10,031
Buildings and improvements	77,538	17,364	60,174
Leasehold improvements	18,526	10,255	8,271
Manufacturing and stamping equipment	482,366	198,431	283,935
Tooling and fixtures	31,064	20,561	10,503
Motor and delivery vehicles	2,615	925	1,690
Office and computer equipment	15,124	11,038	4,086
Construction-in-progress and spare parts	50,289	-	50,289
	$ 687,553	$ 258,574	$ 428,979

(in thousands of dollars, except per share amounts)

NOTE 5: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At December 31, 2007:	Cost	Accumulated amortization	Net book value
Land	$ 9,746	$ -	$ 9,746
Buildings and improvements	66,550	12,576	53,974
Leasehold improvements	15,399	8,676	6,723
Manufacturing and stamping equipment	382,245	143,806	238,439
Tooling and fixtures	26,721	14,234	12,487
Motor and delivery vehicles	2,444	1,002	1,442
Office and computer equipment	16,899	12,117	4,782
Construction-in-progress and spare parts	50,471	-	50,471
	$ 570,475	$ 192,411	$ 378,064

Construction-in-progress as at December 31, 2008 consists of PP&E under construction of $43,890 (2007 - $50,471) and spare parts not put to use of $6,399 (2007 - $0). PP&E under construction are expected to be placed into productive use during the following 12 month period.

The Company recorded PP&E impairment charges of $17,733 (2007 - $3,958) relating primarily to manufacturing and stamping equipment where the estimated fair value, based on discounted future cash flows, exceeded the carrying amount as at December 31, 2008. The impairment charges were determined as the excess of the carrying amount of the PP&E over their estimated fair values.

With adoption of CICA Handbook Section 3031, Inventories, on January 1, 2008, the Company reclassified spare parts of $6,906 from other inventory to PP&E.

NOTE 6: GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2008, the Company determined that the carrying value of goodwill and certain intangible assets were impaired as a result of significant and sustained decline in the market capitalization of the Company and the deteriorating macro environment directly impacting the automotive industry.

Goodwill:

The Company tested the recoverability of the goodwill associated with past acquisitions. The assessment involved using a combination of valuation approaches including a market capitalization approach and discounted cash flow approach. The market capitalization approach uses the Company's publicly traded stock price to determine the fair value. Under the discounted cash flows approach, the Company estimates the expected discounted future cash flows for the next five years as well as the terminal value to determine the fair value. The expected future cash flows are based on Company's estimates. Management concluded that an impairment had occurred, and consequently the Company wrote off the entire carrying value of goodwill through an impairment charge to the consolidated statement of operations in the amount of $230,558. The goodwill impairment charge is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities or compliance with debt covenants.

A summary of the movements in goodwill is as follows:

	2008	2007
Cost	$ 230,558	$ 230,558
Impairment charge	(230,558)	-
	$ -	$ 230,558

Intangible assets:

The intangible assets include customer contracts arising from past acquisitions. The Company assessed the recoverability of intangible assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. As the undiscounted future cash flows associated with the customer contracts were less than the carrying amount, the excess of the carrying amount over the fair value determined based on discounted future cash flows was recorded as an impairment charge of $836 to the consolidated statement of operations.

A summary of the movements in customer contracts is as follows:

	2008	2007
Cost	$ 44,454	$ 43,935
Accumulated amortization	(23,116)	(18,702)
Impairment charge	(836)	-
	$ 20,502	$ 25,233

NOTE 7: OTHER LONG TERM ASSETS

	2008	2007
Note receivable	$ 116,239	$ 132,288

(in thousands of dollars, except per share amounts)

NOTE 7: OTHER LONG TERM ASSETS (CONTINUED)

Pursuant to the acquisition agreement (the "Purchase Agreement") among Kitchener Frame Limited ("KFL"), a wholly-owned subsidiary of the Company, the Company and ThyssenKrupp Budd Canada Inc. ("TK Budd Canada") whereby KFL purchased the assets of TK Budd Canada, KFL assumed the obligations of TK Budd Canada under the defined pension plan for the Kitchener Plant's hourly and salaried affiliated employees (the "DPP") as well as the obligations of TK Budd Canada under certain plans for certain other post-employment benefits for hourly and salaried affiliated employees of the Kitchener Plant ("OPEB Plans").

TK Budd Canada is required pursuant to the terms of the Purchase Agreement to make the following payments (the "TK Budd Canada Pension Payments"), on behalf of KFL, on each applicable payment date: all payments required to be made under the DPP other than (i) certain current service costs in the aggregate amount of $15,608; (ii) any additional payments required to be made as a result of KFL making any changes to the DPP or the terms of the Kitchener Canadian Auto Workers ("CAW") agreements that increase the liabilities under the DPP after closing of the acquisition ("Post-Closing Enhancements") and (iii) in certain circumstances, monthly normal cost payments on and after January 1, 2010. TK Budd Canada is also required pursuant to the terms of the Purchase Agreement to make the following payments (the "TK Budd Canada OPEB Payments"), on behalf of KFL, on each applicable payment date; all payments required to be made in respect of OPEB Plans other than (i) any additional payments required to be made as a result of changes made by KFL after the closing to the terms of the OPEB Plans in effect at the time of closing of the acquisition; and (ii) in certain circumstances, the current OPEB service costs on and after January 1, 2010.

In addition, pursuant to the terms of the Purchase Agreement, TK Budd Canada is required to make all payments required in connection with a wind-up or partial wind-up of the DPP other than any payments related to Post-Closing Enhancements.

To evidence TK Budd Canada's obligations in respect of the TK Budd Canada Pension Payments and the TK Budd Canada OPEB Payments, TK Budd Canada has issued to KFL an unsecured non-negotiable promissory note equal to the amount of unfunded liabilities in respect of which TK Budd Canada has agreed to make TK Budd Canada Pension Payments and TK Budd Canada OPEB Payments, which amount was initially $155,348 (the "Note") as measured in accordance with Canadian GAAP. The amount of the Note is automatically adjusted quarterly to an amount equal to the portion of unfunded liabilities as at each quarter that relate to the amounts in respect of which TK Budd Canada has agreed to make related to the TK Budd Canada Pension Payments and the TK Budd Canada OPEB Payments. The Note as of December 31, 2008 was $116,239 (2007 - $132,288). The Note may be terminated upon the occurrence of an insolvency event of the Company or KFL.

As security for TK Budd Canada's obligations to make the TK Budd Canada Pension Payments and the TK Budd Canada OPEB Payments, TK Budd Canada delivered letters of credit for the benefit of the Company in an aggregate amount equal to $320,000. The Company is generally permitted to draw upon the letters of credit if TK Budd Canada fails to make a TK Budd Canada Pension Payment or a TK Budd Canada OPEB Payment when due (after adequate notice and verification) in an amount equal to the amount in default rounded up to the nearest multiple of $3,000. In the event that TK Budd Canada fails to renew a letter of credit or provide adequate replacement security to the Company prior to the date which is thirty days prior to the expiry of a letter of credit, then the Company is permitted to draw upon the entire amount of the letters of credit. If there remain letters of credit outstanding after July 1, 2010, the aggregate amount of the letters of credit are to be reduced to an aggregate amount equal to the product of (i) $320,000 and (ii) a fraction, the numerator of which is the amount evidenced by the Note as at July 1, 2010 and the denominator of which is $175,005.

Pursuant to the Purchase Agreement, the Company granted to TK Budd Canada an option to purchase all of the outstanding equity securities of KFL for an exercise price of $1 (the "Call Option"). Unless otherwise specified, the Call Option is exercisable by TK Budd Canada on or after January 1, 2010. The Company has agreed to use its commercially reasonable efforts such that if the Call Option is exercised the liabilities of KFL will be limited to the defined pension plan and OPEB liabilities in respect of which TK Budd Canada has agreed to make the TK Budd Canada Pension Payments and the TK Budd Canada OPEB Payments. Other assets and liabilities at the time would be transferred from KFL to a new entity. If and for so long as the Call Option remains unexercised, the letters of credit shall remain outstanding as security. The carrying amount of the note is adjusted at each reporting date to equal the carrying value of the DPP and OPEB pension liabilities as its fair value.

NOTE 8: RESTRUCTURING COSTS

During the fourth quarter of 2008, the Company was notified by a customer that they would terminate an existing program as of December 23, 2008 resulting in the ceasing of production of a key product at KFL. As a result of this notice, KFL's production operations ceased on December 31, 2008 with the wind up of the facility scheduled to be completed by April 2009. The Company incurred a significant amount of severance costs relating to the closure of KFL which were accrued in accordance with the applicable accounting standards in the fourth quarter of 2008. In addition, severance costs were also incurred at other facilities including the closure of a facility in the United Kingdom, the right-sizing of the Company's Windsor, Ontario and Shelbyville, Kentucky facilities and the accrual of costs relating to the scheduled closure of another Canadian facility in 2009.

The Company also incurred contract termination costs as well as transportation costs to move plant and equipment between facilities to realign its operations in light of declining sales volumes. In addition, the closure of KFL and the restructuring of the other facilities required to rationalize its operations resulted in other restructuring costs. The summary of expenses associated with the restructuring is as follows :

		2008		2007
Employee related severance	$	37,445	$	-
Contract termination costs	$	10,644		-
Other restructuring costs		2,133		-
	$	50,222	$	-

As at December 31, 2008, $38,628 of the restructuring costs were unpaid and included in accounts payable and accrued liabilities.

(in thousands of dollars, except per share amounts)

NOTE 9: BANK INDEBTEDNESS

During December 2008, the Company amended its credit agreement. The amendment reduced the available facilities and adjusted the applicable interest rates and standby fees. As a result of the amendment, at December 31, 2008 the Company had available to it swing line credits of $10,000 and US$10,000, revolving credit lines of $25,000 and US$20,000, a term revolving credit line of $67,200 and a term non-revolving credit line of $43,010. The Company has drawn $43,010 against its term non-revolving credit line and $35,000 against the term revolving credit line. The remainder of the facility remains unused at December 31, 2008.

As a result of the amendment to the credit agreement and the reduction in the available facilities, the Company expensed the remaining deferred financing fees of $1,243 in the fourth quarter of 2008 in interest expense in the consolidated statement of operations. These deferred financing fees were previously netted against long-term debt using the effective interest rate method.

At December 31, 2007, the Company had available to it swing line credits of $10,000 and US$10,000, revolving credit lines of $40,000 and US$35,000, a term revolving credit line of $111,927 and a term non-revolving credit line of $51,074.

NOTE 10: LONG-TERM DEBT

	2008	2007
Five-year commercial term loan secured by a registered general security agreement and a first charge on the assets of all the Company's material subsidiaries, with interest payable at a variable rate not exceeding bankers acceptance plus 3.0% or prime plus 2.25%. At December 31, 2008 the effective yield was 4.8% (2007 - 6.1%). Interest rates vary depending on the Company's funded debt to earnings ratio before interest, taxes, amortization and other items. Equal quarterly principal payments of $1,344 are payable, with full repayment of all outstanding amounts on maturity in September 2011. The term loan requires the maintenance of certain financial ratios and the Company was in compliance with these ratios as of December 31, 2008. Deferred financing fees of $0 (2007 - $1,671) have been netted against the carrying value of long term debt.	$ 78,010	$ 46,715
Equipment loan with monthly principal and interest payments of $3, fixed rate of 4.5% per annum, and maturing in August 2009. These loans are secured by the underlying equipment.	12	23
US dollar equipment loans in the amount of US$4,112 with monthly principal and interest payments of US$97, a fixed rate of 7.2% per annum, and maturing in January 2013. These loans are secured by the underlying equipment.	5,009	4,772
US dollar equipment loans in the amount of US$654 with semi-annual principal and interest payments of US$654, fixed rates between 5.8% to 6.2% per annum, and maturing in April 2009. These loans are secured by the underlying equipment.	771	2,339
US dollar equipment loans in the amount of US$2,819 with monthly principal and interest payments of US$80, variable rates of LIBOR plus 2.5%, and maturing from March 2010 to March 2012, with a one-time lump-sum payment of US$1,000 owing in March 2012.	3,433	3,619
US dollar equipment loans in the amount of US$945 with monthly principal and interest payments of US$59, fixed interest rates of 7.5% and maturing in May 2010. These loans are secured by the underlying equipment.	1,151	1,538
US dollar equipment loan in the amount of US$1,113 with monthly principal and interest payments of US$29, variable rate of US prime plus 1% and maturing on June 2012. This loan is secured by underlying equipment.	1,356	-
US dollar equipment loan in the amount of US$3,208 with monthly principal and interest payments of US$97, rate of 7.5% and maturing in January 2012. This loan is secured by the underlying equipment.	3,907	4,006
Four to seven year equipment loans with interest thereon payable monthly at a floating rate of Bankers Acceptance plus 2.25%, with a one-time option to fix the variable rate, and maturing from May 2009 to December 2012. Interest on advances made before commencement of the loan is calculated at bankers acceptance plus a range between 1.5% and 2.25%. These loans are secured by the underlying equipment.	15,336	21,091
Four to seven year equipment loans with interest thereon payable monthly at a fixed rates of between 5.1% and 5.8%, and maturing from November 2011 to September 2012. Interest on advances made before commencement of the loan is calculated at prime plus 1.75%. These loans are secured by the underlying equipment.	8,544	10,074
Four-year term loan to refinance capital equipment with a monthly payment of $40 plus interest at prime plus 1% and maturing between March 2009 and January 2011. The loan is secured by the underlying equipment.	875	1,216
Five-year equipment loan with interest thereon payable monthly at a nominal annual rate of 5.7% and maturing July 2011. The loan is secured by the underlying equipment.	3,388	4,225
	121,792	99,618
Less: Current portion	20,428	18,590
	$ 101,364	$ 81,028

(in thousands of dollars, except per share amounts)

NOTE 10: LONG-TERM DEBT (CONTINUED)

Future annual minimum principal repayments are as follows:

2009	$	20,428
2010		15,132
2011		80,167
2012		5,937
Thereafter		128
	$	121,792

NOTE 11: PENSION BENEFITS

The Company maintains defined benefit pension plans for certain of its employees. The defined benefit plans provide pensions based on length of service and final average pay.

The Company measures its accrued benefit obligations and fair value of plan assets for accounting purposes at December 31 of each year. The most recent actuarial valuations for the pension plans for funding purposes was at December 31, 2006 and the next required valuation will be as of December 31, 2009.

The following tables reflect the financial position of the Company's defined benefit pension plan and the other post-employment benefit plans at December 31, 2008. Refer to note 7 with respect to the note receivable relating to the pension related obligations at KFL.

		2008		2007
Components of net periodic post-employment benefit cost				
Current service cost	$	4,925	$	6,186
Interest cost		26,104		25,279
Actual return on plan assets		(3,618)		(7,743)
Actuarial (gains) / losses on accrued benefit obligation		18,975		(23,000)
Curtailment (gain) / loss		10,661		(635)
Difference between actual and expected return on plan assets		(34,483)		(28,086)
Difference between actual and recognized actuarial (gains) / losses in the year.		(19,019)		23,000
Net periodic pension cost	$	3,545	$	(4,999)
Changes in accrued benefit obligation				
Accrued benefit obligation - beginning of the year	$	(476,788)	$	(509,019)
Current service costs		(4,925)		(6,186)
Interest cost		(26,104)		(25,279)
Actuarial gains		33,157		24,584
Contribution made		20,366		34,733
Curtailment loss		(10,661)		-
Changes in foreign exchange rates		(7,704)		4,379
Accrued benefit obligation - end of year	$	(472,659)	$	(476,788)
Changes in defined benefit pension plan assets				
Fair value of plan assets - beginning of the year	$	491,918	$	484,736
Employer contributions		27,996		37,886
Return on plan assets		(68,048)		8,484
Benefits paid		(32,107)		(34,783)
Changes in foreign exchange rates		(9,411)		(4,405)
Fair value of plan assets - end of year	$	410,348	$	491,918
Reconciliation of funded status				
Accrued benefit obligation	$	(472,659)	$	(476,788)
Fair value of plan assets		410,348		491,918
Funded (deficit) / surplus		(62,311)		15,130
Unamortized net actuarial losses / (gains)		90,393		(11,229)
Accrued benefit asset - end of year	$	28,082	$	3,901

(in thousands of dollars, except per share amounts)

NOTE 11: PENSION BENEFITS (CONTINUED)

	2008	2007
Asset allocation by major category weighted by plan assets		
Equity securities	62.8%	69.1%
Debt securities	37.0%	29.8%
Other	0.2%	1.1%
	100.0%	100.0%
The significant weighted-average actuarial assumptions are as follows:		
Discount rate used to calculate the net benefit plan expense	6.3%	5.6%
Discount rate used to calculate year-end benefit obligation	6.2%	5.7%
Expected long-term rate of return on plan assets	7.7%	7.4%

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS

The Company offers post-employment health care, dental care and other post employment benefits to some of its retirees. These obligations are not funded. Refer to note 7 with respect to the note receivable relating to the benefits related obligations at KFL.

	2008	2007
Components of net periodic post-employment benefit cost		
Current service cost	$ 4,667	$ 4,646
Interest cost	10,838	9,141
Actuarial (gains) / losses on accrued benefit obligation	(11,643)	4,526
Curtailment gain	(11,134)	(2,079)
Settlement gain	(2,162)	-
Difference between actual and recognized actuarial (gains) / losses in the year.	11,008	(4,769)
Amortization of past service costs	(67)	(145)
Costs arising in the period	$ 1,507	$ 11,320
Change in post-employment benefit obligation		
Accrued benefit obligation - beginning of the year	$ (191,193)	$ (186,767)
Adjustments to opening balance	-	1,299
Current service costs	(4,667)	(4,646)
Employee Contributions	(6)	(22)
Interest cost	(10,838)	(9,141)
Actuarial gains / (losses)	6,949	(935)
Benefits paid	5,982	6,072
Curtailment gain	30,136	-
Settlement loss	2,000	-
Change in Foreign exchange rates	(3,502)	2,947
Accrued benefit obligation - end of year	$ (165,139)	$ (191,193)
Reconciliation of funded status		
Funded deficit	$ (165,139)	$ (191,193)
Unamortized net actuarial gains	(28,310)	(4,034)
Accrued benefit liability - end of year	$ (193,449)	$ (195,227)
The significant weighted-average assumptions are as follows:		
Net periodic benefit costs		
Discount Rate	5.7%	5.7%
Initial health care rate	8.1%	8.0%
Ultimate health care rate	7.7%	4.6%
Year ultimate rate reached	2012	2012

(in thousands of dollars, except per share amounts)

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

		2008		2007
Accrued benefit obligation				
Discount Rate		6.7%		5.7%
Initial health care rate		8.1%		8.0%
Ultimate health care rate		7.6%		4.6%
Year ultimate rate reached		2012		2012
Impact of 1% increase in assumed health care cost trend rate	$	19,379	$	30,757
Impact of 1% decrease in assumed health care cost trend rate	$	(17,091)	$	(25,353)

The pension and other post retirement benefits expense in connection with defined benefit pension plans and other post retirement benefit plans for the year ended December 31, 2008 was $5,052 (2007 - $6,322).

NOTE 13: INCOME TAXES

(a) Income taxes attributable to earnings differs from the amounts computed by applying statutory tax rates to pre-tax income as a result of the following:

		2008		2007
Basic statutory rates applied to earnings before income taxes 33.5% (2007 - 36.1%)	$	(91,590)	$	31,443
Increase (decrease) in income taxes resulting from:				
Asset impairment charge		75,067		-
Canadian tax rate changes		236		(1,868)
Intangible assets		1,185		1,296
Manufacturing and processing profits deduction		514		(1,879)
Non-taxable portion of capital gains		-		(376)
Decrease due to deductions allowed and rate differences incurred in foreign jurisdictions		(3,499)		(3,786)
Increase / (decrease) in valuation allowance		2,051		(572)
Stock compensation		1,722		2,168
Other		2,146		74
Income taxes	$	(12,168)	$	26,500

(b) The tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are presented below:

		2008		2007
Future income tax assets:				
Share issue costs	$	1,267	$	1,763
Investment tax credits		1,894		732
PP&E and intangible assets		2,206		-
Capital loss carry forwards		1,290		1,222
Non-capital loss carry forwards		39,719		21,894
Pension and other post-employment benefits		16,204		19,889
Accounting accruals		9,779		6,630
Other		1,099		564
		73,458		52,694
Valuation allowance		(17,807)		(15,756)
Total future income tax assets		55,651		36,938
Future income tax liabilities:				
PP&E and intangible assets		(22,044)		(19,418)
Other		(745)		-
Total future income tax liabilities		(22,789)		(19,418)
Net future income tax asset	$	32,862	$	17,520

The ultimate realization of the future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences become deductible.

The valuation allowance for future taxes as at December 31, 2008 is $17,807 (2007 - $15,756). The valuation allowance increase against future tax assets in Europe and Mexico was partially offset by a reduction in the Canadian valuation allowance on pensions. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which these temporary differences and loss carry forwards are deductible. Management considers the scheduled reversals of future tax liabilities, the character of future income tax assets and available tax planning strategies in making this assessment.

(in thousands of dollars, except per share amounts)

NOTE 13: INCOME TAXES (CONTINUED)

(c) The Company has accumulated approximately $137,323 in non-capital tax losses that are available to reduce taxable income in future years. If unused these losses will expire as follows:

Year		Amount
2011	$	21,683
2012		5,024
2013		4,863
2014		11,983
2015		53
2016		1,124
2018		5,187
2026		2,404
2027		33,649
2028		43,993
Indefinite		7,360
	$	137,323

NOTE 14: SHARE CAPITAL

	Number		Amount
Common Shares			
Authorized - unlimited number of common shares			
Issued and outstanding:			
Balance, December 31, 2006	64,020,151	$	492,194
Issued in private placement	7,250,000		126,875
Share issue costs (net of future tax recovery of $1,718)	-		(3,647)
Exercise of warrants and employee options	1,155,867		13,630
Balance, December 31, 2007 and 2008	72,426,018	$	629,052
Warrants			
Issued and outstanding:			
Balance, December 31, 2006	200,000	$	1,164
Exercise of warrants	(200,000)		(1,164)
Balance, December 31, 2007 and 2008	-	$	-
Share capital, December 31, 2007 and 2008	72,426,018	$	629,052

Share issuance:

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 $126,875. Out of the net proceeds received of $123,228 (after deduction of all transaction costs (net of tax) of $3,647) an amount of $108,980 was used to pay down the revolving portion of the five year commercial term loan in 2007.

Notes receivable for share capital:

The notes receivable of $2,700 represent 10 year, non-interest bearing notes issued to two senior officers in 2001 in order to enable them to acquire an aggregate of 1,500,000 shares of the Company at a price of $4.50 per common share. These notes are secured by the acquired common shares and have been included as a component of shareholders' equity for presentation purposes. As shares of the Company are sold, the notes must be repaid, in proportion to the amount of shares sold. In the second quarter of 2007, two senior officers repaid $4,050.

Warrants:

On April 29, 2002, the Company issued 200,000 warrants to its financial advisors. Each warrant entitled the holder to purchase one common share of the Company at a price of $11.85 on or before April 29, 2007. All of the outstanding warrants were exercised during the second quarter of 2007.

Stock options:

The Company has one stock option plan for key employees. Under the plan as amended and approved at the Company's annual general meeting in May 2007, the Company may grant options to its key employees for up to 6,400,000 shares of common stock with further availability calculated in accordance with the terms of the stock option plan. The Company has, in the past, also granted options to officers and employees of Rea International Inc. and Pilot Industries Inc. in connection with the acquisitions thereof. Such options were granted outside the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with stock option plan and the policies of the Company, and the options have a maximum term of 10 years. Options are granted throughout the year and vest between 0 and 4 years.

(in thousands of dollars, except per share amounts)

NOTE 14: SHARE CAPITAL (CONTINUED)

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

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	4,958,833	$ 12.28	3,812,200	$ 8.96
Granted	1,230,000	7.54	2,120,000	16.21
Exercised	-	-	(955,867)	7.79
Cancelled	(45,000)	11.00	(17,500)	9.20
Balance, end of year	6,143,833	$ 11.34	4,958,833	$ 12.28
Options exercisable, end of year	4,593,833	$ 11.03	3,459,500	$ 10.89

The following is a summary of issued and outstanding common share purchase options as at December 31, 2008:

Range of exercise price per share	Number outstanding	Date of grant	Expiry	Vesting period
$3.00 - 6.00	307,833	2005 & 2008	2015 & 2018	Immediately and 1 to 4 years
$6.00 - 7.00	95,000	2004 - 2008	2014 - 2018	Fully vested and 1 to 4 years
$7.00 - 8.60	1,231,000	1999 - 2008	2009 - 2018	Fully vested and 1 to 4 years
$9.00 - 9.50	150,000	2008	2018	Fully vested and up to 1 year
$10.00 - 10.35	1,975,000	2002	2012	Fully vested
$11.00 - 12.00	285,000	1998 -2006	2008 - 2016	Fully vested and 1 to 4 years
$16.00 - 17.75	2,100,000	2007	2017	Immediately and 1 to 4 years
	6,143,833			

NOTE 15: CONTRIBUTED SURPLUS

Contributed surplus represents the use of the fair value-based method for stock-based compensation arrangements. During 2008, the Company expensed $5,141 (2007 - $6,354) to reflect compensation expense, as derived using the Black-Scholes option valuation model. Contributed surplus also includes the value of $5,000 (2007 - $5,000) relating to expired warrants.

The table below summarizes the assumptions used in determining stock-based compensation expense under the Black-Scholes option pricing model:

	2008	2007
Risk free interest rate	2.9%	4.6%
Expected life (years)	4	4
Expected volatility	39.0%	34.0%
Weighted average fair value of options granted	$ 2.05	$ 5.41

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

NOTE 16: EARNINGS (LOSS) PER COMMON SHARE

Basic and diluted earnings per common share have been calculated using the weighted average and maximum dilutive number of shares, using the treasury stock method.

	2008		2007	
	Weighed average number of common shares	Per common share amount	Weighed average number of common shares	Per common share amount
Basic	71,826,018	$ (3.64)	65,617,266	$ 0.92
Effect of dilutive securities:				
Shares secured by notes receivable	600,000	-	600,000	-
Stock options	82,248	-	1,085,186	(0.02)
Diluted	72,508,266	$ (3.64)	67,302,452	$ 0.90

The dilutive effect of stock options excludes the effect of 5,741,000 (2007 - 2,100,000) out of the money options whose strike price is higher than the average market price for the year, as they are anti-dilutive.

(in thousands of dollars, except per share amounts)

NOTE 17: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, note receivable, accounts payable, accrued liabilities, long-term debt and foreign exchange contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The estimated fair value of the long-term debt approximates its carrying value since the long term debt are subject to terms and conditions similiar to those available to the Company for instruments with comparable terms, and the interest rates are market based. The note receivable fair value has been determined as mentioned in note 7 and the foreign exchange contracts have been marked to market for fair valuation purposes.

The carrying amounts of the financial instruments as at December 31, 2008 are as follows:

	Held for Trading	Loans and receivables	Carrying Amount	Fair value
Financial assets:				
Cash and cash equivalents	$ 60,965	$ -	$ 60,965	$ 60,965
Note receivable	116,239	-	116,239	116,239
Accounts receivable	-	213,575	213,575	213,575
	$ 177,204	$ 213,575	$ 390,779	$ 390,779
Financial liabilities:				
Accounts payable and accrued liabilities	$ -	$ 227,243	$ 227,243	$ 227,243
Foreign exchange contracts	1,310	-	1,310	1,310
Long Term Debt	-	121,792	121,792	121,792
	$ 1,310	$ 349,035	$ 350,345	$ 350,345
Net financial asset / (liability)	$ 175,894	$ (135,460)	$ 40,434	$ 40,434

The Company has exposure to the following risks from its use of financial instruments, and manages these risk exposures as follows:

(a) Credit risk:

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. The Company primarily sells to the North American automotive industry and provides credit to its customers in the normal course of business. The exposure to credit risk associated with the non-performance of these customers can be directly impacted by a decline in economic conditions which would impair the customers' ability to discharge their obligations to the Company.

Some of the Company 's major customers, particularly General Motors and Chrysler, are currently at risk of insolvency without government financial assistance. Notwithstanding any government assistance that has been or may be extended to any of the Company's major customers, such customers may seek bankruptcy protection in order to restructure their business and operations. Since OEMs rely on a highly interdependent network of suppliers, an OEM bankruptcy, absent measures to ensure continued timely payment for shipments from suppliers, could have a “domino effect”, causing multiple supplier bankruptcies and thus the complete seizure of the automotive industry for a prolonged period of time, all of which would have a material adverse effect on the Company ’s profitability and financial condition.

Approximately 90% (2007 - 92%) of the Company ’s production sales are derived from four (2007 - four) customers. The Company manages this risk by ensuring that these customers continue to settle accounts under the agreed upon payment terms, and long outstanding balances are investigated and resolved on a timely basis.

The aging of accounts receivable at the reporting date was as follows:

	2008	2007
0-60 days	$ 202,219	$ 246,933
61-90 days	6,855	17,892
Greater than 90 days	4,501	20,298
	$ 213,575	$ 285,123

As the Company's most signficant customers continue to make regular and consistent payments in accordance with agreed upon repayment terms, and the history of good collections, a provision for doubtful accounts is made on a customer by customer and invoice by invoice basis, based on ongoing customer discussions. The reconciliation of the allowance for doubtful accounts is as follows:

Closing balance, December 31, 2006	$ 2,849
Decrease during the year	(750)
Closing balance, December 31, 2007	2,099
Increase during the year	2,420
Closing balance, December 31, 2008	$ 4,519

The Company is exposed to the non-performance by counterparties to foreign currency forward contracts. These counterparties are large international financial institutions and, to date, no such counterparty has failed to meet its financial obligation to the Company. Management does not believe there is a significant risk of non-performance by these counterparties.

(in thousands of dollars, except per share amounts)

NOTE 17: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they come due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet the 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 budget process. The adverse conditions in the North American automotive industry, as described in note 17(a), could have a material adverse effect on the Company's liquidity impacting its ability to meet its financial obligations as they become due. At December 31, 2008, the Company had cash of $60,965, and the facilities available to it as discussed in note 9. All the Company's financial liabilities other than long term debt have maturities of approximately 60 days. A summary of the Company's contractual obligations and commitments is provided in note 21.

(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 market interest rates. The Company is exposed to interest rate risk as the Company's long-term debt bears interest at rates linked to the US prime, Canadian prime, 1 month LIBOR or the Bankers Acceptance rates. The interest rate on the term loan fluctuates depending on the achievement of certain financial debt ratios, and may cause the interest rate to increase by a maximum of 1.0%. An increase or decrease of 1.0% in all variable interest rate debt would, everything else being equal, have an effect of approximately $935 on the Company's consolidated statement of earnings for the year ended December 31, 2008.

(d) Foreign exchange risk:

Foreign exchange 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. The Company periodically enters into foreign exchange forward contracts to manage exposure of exchange rate fluctuations between the Mexican Peso and US Dollar.

At December 31, 2008, the Company had commited to sell a total of US$23,326 at an average exchange rate of 1.1618, with maturity dates ranging from January 2009 to December 2009. At December 31, 2008, the aggregate value of these forward contracts was a loss of $1,310 (2007 - $452) and was recorded in accounts payable and accrued liabilities. The Company does not apply hedge accounting.

The Company does not use derivative financial instruments for speculative purposes.

The Company is exposed to the following currency risk on sales, purchases and borrowings at the reporting date, reported below in the foreign currency:

		USD	EURO	GBP	PESO
Accounts receivable	$	95,517	-	153	161,583
Accounts payable and accrued liabilities		(89,809)	(101)	(496)	(28,854)
Long-term debt		(12,851)	-	-	-
	$	(7,143)	(101)	(343)	132,729

At December 31, 2008, a 5% rise or fall of the Canadian dollar against the other currencies, assuming all other variables remain the same, would have resulted in a $1555 increase or decrease in the Company's net earnings (loss) for the year ended December 31, 2008.

The following summary illustrates the fluctuations in the exchange rates applied during the year ended December 31, 2008:

	USD	EURO	GBP	PESO
Opening exchange rate	0.9913	1.4428	1.9600	0.0905
Closing exchange rate	1.2180	1.7046	1.7896	0.0885
Average exchange rate	1.0468	1.5419	1.9749	0.0959

(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 strategic acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and retained earnings.

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

(in thousands of dollars, except per share amounts)

NOTE 18: RELATED PARTY TRANSACTIONS

A director of the Company was, for 2007 and part of 2008, a director and officer of a company which purchased $1,221 (2007 - $2,938) of products from the Company. These sales were in the normal course of business and were recorded at exchange amounts.

During 2008, the Company also advanced loans to some of its principal officers and employees with interest charged at market rates. These loans are recorded in other receivables and were used to purchase shares of the Company from the open market. The loans are repayable by December 2010.

NOTE 19: ECONOMIC DEPENDENCE

The Company, as a supplier to North America's automotive manufacturers, faces certain challenges in the upcoming year. It is economically dependent on three major customers namely General Motors, Ford Motor Company and Chrysler (collectively "the Detroit 3") in order to generate operating profits and cash flows from operations and for the continued viability of the Company's business. The uncertainty around the ability of one or more of the Detroit 3 to satisfy their financial obligations to the Company and the potential for these customers to seek protection from their creditors represent material risks to the Company.

Recent economic conditions during 2008 have reduced consumers' demand for certain of the products produced by the Detroit 3. In addition, illiquid credit market conditions have reduced the availability of financing for many consumers. These factors, combined with the general slowdown in consumer spending caused by uncertainty about future market conditions, continue to adversely impact the Detroit 3's profits and cash flows. Further, General Motors, the Company's largest customer in 2008, advised in its 2008 financial statements that there is substantial doubt about its ability to continue as a going concern. As such, it is possible that Detroit 3 production levels will decrease significantly from the current levels in the near term. Any inventory, accounts receivable and revenue losses resulting from further production cuts by the Detroit 3 may have a significant and severe impact on the operations of the Company.

NOTE 20: SEGMENTED INFORMATION

The Company focuses its operations on the production of goods for the automotive industry. Sales by geographic region are summarized as follows:

	Destination			
December 31, 2008	Canada	US	Other	Total
Location:				
Canada	$ 373,271	$ 413,417	$ 20,683	$ 807,371
US	40,056	419,526	87,814	547,396
Other	-	81,735	120,519	202,254
	$ 413,327	$ 914,678	$ 229,016	$ 1,557,021

	Destination			
December 31, 2007	Canada	US	Other	Total
Location:				
Canada	$ 696,939	$ 341,373	$ 31,756	$ 1,070,068
US	801	670,960	70,012	741,773
Other	-	94,658	95,962	190,620
	$ 697,740	$ 1,106,991	$ 197,730	$ 2,002,461

Approximately 90% (2007 - 92%) of the Company 's production sales are derived from four (2007 - four) customers. The Company manages this risk by ensuring that these customers continue to settle accounts under the agreed upon payment terms, and long outstanding balances are investigated and resolved on a timely basis.

Assets by geographic region are summarized as follows:

December 31, 2008	Current assets	Capital Assets	Goodwill and Other assets	Total
Canada	$ 244,931	$ 188,339	$ 151,965	$ 585,235
US	125,869	175,802	38,213	339,884
Mexico	61,148	64,340	84	125,572
Europe	3,479	498	2,130	6,107
	$ 435,427	$ 428,979	$ 192,392	$ 1,056,798

NOTE 20: SEGMENTED INFORMATION (CONTINUED)

December 31, 2007	Current assets	Capital Assets	Goodwill and Other assets	Total
Canada	$ 307,697	$ 194,434	$ 229,207	$ 731,338
US	149,017	131,472	172,128	452,617
Mexico	57,394	50,534	4,984	112,912
Europe	2,215	1,624	18,698	22,537
	$ 516,323	$ 378,064	$ 425,017	$ 1,319,404

(in thousands of dollars, except per share amounts)

NOTE 21: GUARANTEES AND COMMITMENTS

The Company leases manufacturing premises, office equipment, vehicles and facilities under long term operating leases and enters into purchase obligations in its normal course of business. The aggregate expected payments towards these obligations are as follows:

2009	$	112,281
2010		24,897
2011		22,504
2012		15,763
2013		9,223
Thereafter		112,054
	$	296,722

The Company is a guarantor under a tool financing program. 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 consolidated balance sheet. At December 31, 2008, the amount of program financing was $22,927 (2007 - $18,001). The maximum amount of undiscounted future payments the Company could be required to make under the guarantee is $22,927 (2007 - $18,001).

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. No such defaults occurred during 2008 or 2007. 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 to 18 months.

NOTE 22: SUBSEQUENT EVENTS

On February 27, 2009, the Company completed the acquisition of certain assets of the SKD Automotive Group, including a facility in Jonesville, Michigan (“Jonesville”) in one transaction and a facility in Mexico City, Mexico (“Mexico City”) in a second transaction. The purchase price for Jonesville was US$7 million, for the assets purchased, including land, building, equipment, raw material and work in progress inventory, less certain payables assumed. The purchase price for Mexico City was US$3 million for the assets purchased, including some land and buildings, equipment, raw material and work in progress inventory, less certain payables assumed. The total cash payment for the two transactions was approximately US$3.5 million, subject to adjustments for inventory valuation and accounts payable confirmation. The Company has operated each of the facilities since the closing date.

NOTE 23: COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year basis of presentation.

CORPORATE INFORMATION

Corporate Head Office
Martinrea International Inc.
30 Aviva Park Drive
Vaughan, Ontario L4L 9C7
E: info@martinrea.com
W: www.martinrea.com

Board of Directors
Rob Wildeboer, Chairman
Martinrea International Inc.

Fred Jaekel, Chief Executive Officer
Martinrea International Inc.

Suleiman Rashid (1), (2)
Chartered Accountant and Business Consultant

Natale Rea, Vice Chairman
Martinrea International Inc.

Zoran Arandjelovic (1), (2)
President, Capital Z Corporation

Fred Olson (1), (2), (3)
(Retired) President and CEO,
Webasto Product North America

(1) Member, Human Resources and Compensation Committee
(2) *Member, Audit Committee*
(3) *Lead Director*

Corporate Executive Officers

Fred Jaekel	Chief Executive Officer
Nick Orlando	President & Chief Financial Officer
Natale Rea	Vice Chairman
Rob Wildeboer	Executive Chairman
Armando Pagliari	Executive VP, Human Resources

Stock Listing
The Toronto Stock Exchange (TSX: MRE)

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
T: 1 800 564-6523/1 514 982-7555
F: 1 866 249-7775
E: service@computershare.com

Certificate Transfer and Address Change
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
T: 1 800 564-6523/1 514 982-7555
F: 1 866 249-7775
E: service@computershare.com

Shareholder Inquiries/Investor Relations
All inquiries should be directed to:
Nick Orlando
Martinrea International Inc.
30 Aviva Park Drive
Vaughan, Ontario L4L 9C7
T: 416 749-0314
F: 905 264-2937

Auditors
KPMG
Suite 3300 Commerce Court West
P.O. Box 31 Stn. Commerce Court
Toronto, Ontario M5L 1B2
T: 416 777-8500
F: 416 777-8818

MARTINREA INTERNATIONAL INC.

Website: www.martinrea.com
Investor Information: investor@martinrea.com
General Information : info@martinrea.com