



**MARTINREA INTERNATIONAL INC.**

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**REPORT TO SHAREHOLDERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

## MESSAGE TO SHAREHOLDERS

Welcome to 2020, and the start of our third decade as a growing auto parts company. We look forward to another successful year, as we continue to develop and apply our One Martinrea culture in our business, continuing to improve our leading financial, safety and quality metrics, delighting our customers, providing meaningful work and job satisfaction to our employees, performing for our shareholders and leading the way in good corporate citizenship in our communities.

The year 2019 was special in many ways, and let's summarize some of the highlights:

- We recorded increased revenues of \$3,863.7 million. Our business grew year over year, increasing approximately 5.5% when the overall industry was generally flat, and down in some areas.
- But for a GM strike in the fall, we would have improved adjusted net income for the eleventh year in a row. We had adjusted net income of approximately \$188 million, or fully diluted adjusted net earnings per share of \$2.27, the best EPS performance in our history.
- But for the strike, our adjusted operating income margins would have increased again in 2019, showing continued improvement from 4.1% in 2014. Our operating margins have progressed nicely over the past five years, outperforming most industry players. On an absolute basis, our operating margins are now higher than many of our direct competitors in the areas in which we compete and in terms of general automotive parts suppliers.
- Our company is becoming a significant cash flow generator, and we saw significant free cash flow in 2019, as promised.
- Our balance sheet remains very strong, and we ended 2019 with a net debt:adjusted EBITDA ratio at 1.41:1, while paying dividends and paying for significant share repurchases in 2019.
- We returned significant cash to our shareholders in 2019. During the year, we repurchased approximately 4.8 million, or 5.7%, of our outstanding common shares, returning approximately \$73 million to shareholders, inclusive of our dividend.
- We continued to focus on improving our safety metrics, as we look to provide our employees with a safe work environment. Our safety metrics have shown a 72% improvement over the last five years. Overall, we are significantly better than industry average, covering our customers and other parts manufacturers. Our internal objective was to be in the top quartile of our industry for safety performance, and now it is to be in the top decile. We will get there. Our ultimate goal is to be the industry leader. We note that this has been a journey for many of our plants, which we bought while they were in financial distress and safety was not good.
- Quality is critical for us, and 2019 was a year in which we continued to receive multiple quality awards from multiple customers. We have also received supplier diversity awards.
- 2019 saw a year of heavy launch activity, which went very well for us.
- We quoted much new business, and achieved new business awards with approximately \$385 million in annualized revenue when launched. This work will launch over the next three years and will support revenue growth for us.

- We have renewed our sales and marketing strategy to take advantage of opportunities created because of current lightweighting and electrification trends and also our capabilities to build systems, launched to our customers in early 2019. In addition to our historical portfolio of products and capabilities, we will be delivering lightweight structures and propulsion systems using advanced materials in steel, aluminum, or a combination, as well as other materials.
- We increased our strategic investment in NanoXplore Inc., a leading producer of graphene, which we are very excited about. Graphene is a wonderful material with huge lightweighting possibilities generally and for our applications. We believe we will be marketing graphene enhanced products to customers in 2020.
- In late 2019 we announced the acquisition of Metalsa's structural components for passenger cars business, closing in 2020. There are several potential benefits we expect from this purchase, including added revenues; increased diversification of our customer base by adding significant work from Daimler, BMW and Audi; seeing our steel metal forming group expand from a North American player to a more global one; the acquisition of a strong and reputable engineering group in Germany to support our customers and commercial strategy; and enhancing our lightweighting capabilities particularly through the acquisition of advanced multi-material joining technology.

So, we had a great year. This despite some of the industry headwinds and the broader geopolitical, trade and economic environment.

In terms of the industry, volumes were fairly flat across our markets, declining in some areas. Nevertheless, overall volumes remain at a very healthy level today. And our product offerings are essential to our customers. Every vehicle needs structure for safety reasons, and we provide that. Every vehicle benefits from the lightweighting of products that we specialize in, whether an electric vehicle, one propelled by gasoline or diesel, or one propelled by something else. Lightweight products reduce emissions, increase distance on a tank of gas or an electric charge, reduce greenhouse gas emissions somewhere, and so on. Our new business wins are a testament to the needs of our products. They include battery trays and propulsion products for electric and hybrid vehicles. Our propulsion systems products are mission critical for this industry. In sum, we believe we are positioned to be in a very good place.

In addition to the usual industry challenges, in 2019 we dealt with, and are continuing to deal with, some broader issues. In the area of trade, we are pleased with the signing, and hopefully pending ratification, in Canada, of the USMCA, as the updated form of NAFTA is generally termed. We believe the signed agreement is a good one, with some potential opportunities for North American suppliers such as ourselves because of the North American rules of origin provisions. In terms of broader tariff and trade discussions, involving the United States, China and others, there was a lot of negotiating in 2019, but there seemed to be some trade stability by year end. Martinrea has a small presence in China, but there is opportunity there if the risks can be addressed.

On a positive note, as we have always stated, challenges present opportunities to nimble, entrepreneurial, lean and resilient companies with great people, and we believe we have shown an ability to take advantage of opportunities over the years. In 2001, we were not an automotive parts supplier, and we became one just before 9/11. For the next seven years there were many challenges in the industry, as it saw many insolvencies and restructurings, and we grew and bought distressed assets at good prices—that we needed to fix. Then came the Great Recession, which was not fun, but we came out of that with more assets and a full footprint. Since that time, in the recovery, we have continued to improve, and especially since 2014

when we launched our Martinrea 2.0 strategy, all resulting in the improving financial, safety, quality and other metrics shown by our results. We get stronger through meeting challenges well. Bring it on!

We talk about culture a lot at Martinrea. Why? Because it matters. It matters a lot. It matters to us, but most importantly, it matters to our people here at Martinrea. Over 90% of our employees, worldwide, report in our employee surveys that they know our vision, mission and principles! That is a telling statistic. The employees were from all of our plants and two major corporate offices in nine countries on four continents, and included recent hires and those who have been with us for many years. Our culture is having a profound impact on our company and our people, and on us. So we take it very seriously. Peter Drucker once said culture eats strategy for breakfast. And we think he is right.

So, we come to maybe the biggest highlight for us from 2019, and that is our continued development of culture. Our vision is “Making lives better by being the best supplier we can be in the products we make and the services we provide.” Our people need a why, and that’s a “why” vision. Our mission is Making People’s Lives Better by: (i) Delivering outstanding quality products and services to our customers; (ii) Providing meaningful opportunity, job satisfaction and job security for our people; (iii) Providing superior long term investment returns to our stakeholders; and (iv) Being positive contributors to our communities. And our Ten Guiding Principles remain the same:

1. We make great, high quality products
2. Every location must be a centre of excellence
3. Discipline is key
4. We attract, train and work with excellent people, and we motivate our people to perform well
5. We are a team
6. Challenges make us better
7. Think differently
8. Work hard, play hard
9. The Golden Rule – Treat everyone with dignity and respect
10. Our leadership team has to drive these messages consistently and simply.

We don’t stop with the Vision, Mission and Ten Guiding Principles. In 2018, we articulated, in a cohesive yet simple way, our company culture, comprised of entrepreneurship, lean manufacturing principles and the Golden Rule philosophy core to our Ten Guiding Principles, as demonstrated in a picture.

### MAKING PEOPLE’S LIVES BETTER



The Company has been entrepreneurial in nature since inception, a company that has embraced characteristics of encouraging executives, general managers and all employees to act and think like an owner with a stake in the enterprise; supporting a can do attitude; promoting an ability and willingness to urgently get things done; acting to avoid unnecessary bureaucracy; developing an ability to learn from mistakes openly and constructively; and the trust of working in a team. As a Company, we embrace new initiatives every day, and we focus on new products, new technologies, new locations and new ways of doing things consistently. Our strategic investment in NanoXplore, our embracing of new technologies, and our acquisitions in 2019 reflect our entrepreneurial character.

The Company embraces lean thinking as part of its culture too. Simply stated, the lean thinking way is a focus on eliminating waste in all aspects of the Company's business and operations. The elimination of waste allows us to take out unnecessary cost, thereby making us competitive. It enables us to see problems that we can fix in our operations more easily. It allows us to simplify processes so that we can have safer, cleaner, more efficient and more sustainable workplaces. It is a culture of continuous improvement in whatever we do. Our improving quality and safety and our growth in margins are all products of lean thinking.

At the core of our One Martinrea culture is a Golden Rule philosophy, based on treating others the way we want to be treated, with dignity and respect, but more also. It means following our Ten Guiding Principles in our business and operations, and in how we deal with our customers, employees, suppliers, stakeholders (lenders and shareholders) and our communities. Being lean or being entrepreneurial is not enough. These cultural elements overlap but are tied together with our Golden Rule approach. We make people's lives better in what we do, and we can only do that with a service oriented approach to our work and our colleagues at work, and all those who we deal with in our work. It's not about "me"; it's about "we".

At Martinrea, we believe that our culture is and will be a sustainable competitive advantage for the Company over the long term, and we believe it has driven the improving financial, safety, and quality performance over the past several years. In order to be sustainable for the long term, a company has to be profitable, safe, build great products, take care of its customers and people and have a culture that is embraced by the people.

Sustainable companies with great cultures will be around for a long time. We believe we have a company poised to excel over the next decade and beyond, and we, and our people, are committed to that.

We thank all our stakeholders for their support! We will continue to do our best for you in 2020, the next decade, and beyond. We will have a great future together.

(Signed) "*Rob Wildeboer*"

Rob Wildeboer  
Executive Chairman

(Signed) "*Pat D'Eramo*"

Pat D'Eramo  
President and Chief Executive Officer

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the Year ended December 31, 2019**

The following management discussion and analysis (“MD&A”) was prepared as of March 5, 2020 and should be read in conjunction with the Company’s audited consolidated financial statements (“consolidated financial statements”) for the year ended December 31, 2019 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. Additional information about the Company, including the Company’s Annual Information Form for the year ended December 31, 2019, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (TSX:MRE) (“Martinrea” or the “Company”) is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea currently employs approximately 17,000 skilled and motivated people in 57 locations (including sales and engineering centers) in Canada, the United States, Mexico, Brazil, Germany, Spain, Slovakia, China, Japan and South Africa.

Martinrea’s vision is making lives better by being the best supplier we can be in the products we make and the services we provide. The Company’s mission is to make people’s lives better by: delivering outstanding quality products and services to our customers; providing meaningful opportunity, job satisfaction, and job security for our people; providing superior long-term investment returns to our stakeholders; and being positive contributors to our communities.

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company’s disclosures that it believes provide the most appropriate basis on which to evaluate the Company’s results.

**OVERALL RESULTS**

The following tables set out certain highlights of the Company’s performance for the three months and fiscal years ended December 31, 2019 and 2018. Refer to the Company’s consolidated financial statements for the year ended December 31, 2019 for a detailed account of the Company’s performance for the periods presented in the table below.

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
Sales	\$	3,863,659	\$	3,662,900	200,759	5.5%
Gross Margin		586,101		556,161	29,940	5.4%
Operating Income		265,837		276,472	(10,635)	(3.8%)
Net Income for the period		181,221		185,883	(4,662)	(2.5%)
Net Earnings per Share - Basic	\$	2.20	\$	2.15	0.05	2.3%
Net Earnings per Share - Diluted	\$	2.19	\$	2.14	0.05	2.3%
<b><u>Non-IFRS Measures*</u></b>						
Adjusted Operating Income	\$	288,305	\$	283,981	4,324	1.5%
<i>% of Sales</i>		7.5%		7.8%		
Adjusted EBITDA		504,555		461,223	43,332	9.4%
<i>% of Sales</i>		13.1%		12.6%		
Adjusted Net Income		187,687		193,166	(5,479)	(2.8%)
Adjusted Net Earnings per Share - Basic	\$	2.28	\$	2.23	0.05	2.2%
Adjusted Net Earnings per Share - Diluted	\$	2.27	\$	2.22	0.05	2.3%

	Three months ended December 31, 2019		Three months ended December 31, 2018		\$ Change	% Change
Sales	\$	917,581	\$	926,154	(8,573)	(0.9%)
Cost of sales (excluding depreciation)		(737,040)		(751,605)	14,565	(1.9%)
Depreciation of property, plant and equipment and right-of-use assets (production)		(50,620)		(39,982)	(10,638)	26.6%
Gross Margin		129,921		134,567	(4,646)	(3.5%)
Research and development costs		(9,876)		(7,189)	(2,687)	37.4%
Selling, general and administrative		(63,659)		(58,363)	(5,296)	9.1%
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,770)		(2,971)	(799)	26.9%
Amortization of customer contracts and relationships		(513)		(535)	22	(4.1%)
Loss on disposal of property, plant and equipment		(274)		(93)	(181)	194.6%
Impairment of assets		-		(5,436)	5,436	(100.0%)
Restructuring costs		-		(2,073)	2,073	(100.0%)
Operating Income	\$	51,829	\$	57,907	(6,078)	(10.5%)
Share of loss of an associate		(679)		-	(679)	(100.0%)
Finance expense		(8,912)		(7,013)	(1,899)	27.1%
Other finance income (expense)		583		(389)	972	(249.9%)
Income before income taxes	\$	42,821	\$	50,505	(7,684)	(15.2%)
Income tax expense		8,332		(12,689)	21,021	(165.7%)
Net Income for the period		51,153		37,816	13,337	35.3%
Net Earnings per Share - Basic and Diluted	\$	0.63	\$	0.44	0.19	43.2%
<b>Non-IFRS Measures*</b>						
Adjusted Operating Income	\$	51,829	\$	65,416	(13,587)	(20.8%)
<i>% of sales</i>		5.6%		7.1%		
Adjusted EBITDA		110,534		111,785	(1,251)	(1.1%)
<i>% of sales</i>		12.0%		12.1%		
Adjusted Net Income		33,834		43,840	(10,006)	(22.8%)
Adjusted Net Earnings per Share - Basic and Diluted	\$	0.42	\$	0.51	(0.09)	(17.6%)

#### **\*Non-IFRS Measures**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS 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 financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt".

#### **Impact of the Adoption of IFRS 16, Leases**

Effective January 1, 2019, the Company adopted the new accounting standard, IFRS 16, Leases ("IFRS 16"). In adopting the new standard, the Company used the modified retrospective approach which involves recognizing transitional adjustments in opening retained earnings, if any, on the date of initial application without restating comparative prior periods. As such, 2018 prior year comparatives have not been restated.

The adoption of the new standard resulted in the recognition of lease liabilities of \$228.6 million and right-of-use assets of \$223.8 million, net of accrued liabilities related to the leases of \$4.8 million, recognized as at January 1, 2019 in the consolidated balance sheet. From an earnings perspective, while timing differences may exist, the new standard results in a decrease in operating rent expense essentially replaced by increases in finance and depreciation expenses as recognized in the consolidated statement of operations. As such, the adoption of IFRS 16 did not have a significant impact on the Company's operating results and the financial metrics for the three months

and fiscal year ended December 31, 2019 outlined above other than “Adjusted EBITDA”. The adoption of IFRS 16 contributed approximately 8% of the year-over-year change in Adjusted EBITDA due to the recognition of depreciation expense on right-of-use assets, in lieu of operating rent expense, as required by the new standard. The adoption of the new standard is further explained in “Recently adopted accounting standards and policies” in this MD&A and note 2(t)(i) of the consolidated financial statements for the year ended December 31, 2019.

The following tables provide a reconciliation of IFRS “Net Income” to Non-IFRS “Adjusted Net Income”, “Adjusted Operating Income” and “Adjusted EBITDA”.

	Three months ended December 31, 2019		Three months ended December 31, 2018	
Net Income	\$	51,153	\$	37,816
Unusual and Other Items (after-tax)*		(17,319)		6,024
Adjusted Net Income	\$	33,834	\$	43,840

	Year ended December 31, 2019		Year ended December 31, 2018	
Net Income	\$	181,221	\$	185,883
Unusual and Other Items (after-tax)*		6,466		7,283
Adjusted Net Income	\$	187,687	\$	193,166

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A

	Three months ended December 31, 2019		Three months ended December 31, 2018	
Net Income	\$	51,153	\$	37,816
Income tax expense		(8,332)		12,689
Other finance income - excluding Unusual and Other Items*		(595)		(59)
Share of loss of an associate		679		-
Finance expense		8,912		7,013
Unusual and Other Items (before-tax)*		12		7,957
Adjusted Operating Income	\$	51,829	\$	65,416
Depreciation of property, plant and equipment and right-of-use assets		54,390		42,953
Amortization of intangible assets		4,041		3,323
Loss on disposal of property, plant and equipment		274		93
Adjusted EBITDA	\$	110,534	\$	111,785

	Year ended December 31, 2019		Year ended December 31, 2018	
Net Income	\$	181,221	\$	185,883
Income tax expense		43,824		60,943
Other finance expense - excluding Unusual and Other Items*		535		401
Share of loss of an associate		2,009		-
Finance expense		37,997		27,358
Unusual and Other Items (before-tax)*		22,719		9,396
Adjusted Operating Income	\$	288,305	\$	283,981
Depreciation of property, plant and equipment and right-of-use assets		201,321		163,298
Amortization of intangible assets		15,861		13,482
Loss (gain) on disposal of property, plant and equipment		(932)		462
Adjusted EBITDA	\$	504,555	\$	461,223

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

## SALES

### Three months ended December 31, 2019 to three months ended December 31, 2018 comparison

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change	% Change
North America	\$ 720,185	\$ 735,876	(15,691)	(2.1%)
Europe	158,389	167,533	(9,144)	(5.5%)
Rest of the World	41,144	27,571	13,573	49.2%
Eliminations	(2,137)	(4,826)	2,689	(55.7%)
Total Sales	\$ 917,581	\$ 926,154	(8,573)	(0.9%)

The Company's consolidated sales for the fourth quarter of 2019 decreased by \$8.6 million or 0.9% to \$917.6 million as compared to \$926.2 million for the fourth quarter of 2018. The total decrease in sales was driven by year-over-year decreases in the North America and Europe operating segments, partially offset by an increase in the Rest of the World.

Sales for the fourth quarter of 2019 in the Company's North America operating segment decreased by \$15.7 million or 2.1% to \$720.2 million from \$735.9 million for the fourth quarter of 2018. The decrease was due to the impact of the United Auto Workers (UAW) strike at General Motors in the United States, which began on September 16, 2019 and ended at the end of October, negatively impacting production sales for the fourth quarter by approximately \$65.0 million across several platforms; and lower year-over-year OEM production volumes on certain light-vehicle platforms, in particular the Ford Escape, Ford Fusion, and programs that ended production during or subsequent to the fourth quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the fourth quarter of 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, the new Chevrolet Blazer and the Mercedes A-class vehicle platform; an increase in tooling sales of \$40.1 million, which are typically dependent on the timing of tooling construction and acceptance by the customer; and the impact of foreign exchange on the translation of U.S. dollar-denominated production sales, which had a positive impact on overall sales for the fourth quarter of 2019 of approximately \$6.0 million as compared to the fourth quarter of 2018.

Sales for the fourth quarter of 2019 in the Company's Europe operating segment decreased by \$9.1 million or 5.5% to \$158.4 million from \$167.5 million for the fourth quarter of 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Daimler and Jaguar Land Rover, and including programs that ended production during or subsequent to the fourth quarter of 2018; and a \$4.1 million negative foreign exchange impact from the translation of Euro-denominated production sales as compared to the fourth quarter of 2018. These negative factors were partially offset by the launch of new programs during or subsequent to the fourth quarter of 2018, including new aluminum engine blocks for Ford, Jaguar Land Rover and Volvo, and an aluminum transmission for Volkswagen; and a \$1.7 million increase in tooling sales.

Sales for the fourth quarter of 2019 in the Company's Rest of the World operating segment increased by \$13.6 million or 49.2% to \$41.1 million from \$27.6 million in the fourth quarter of 2018. The increase was due to higher year-over-year production volumes on the Cadillac CT6 vehicle platform in China; the ramp up of new aluminum structural components work for Jaguar Land Rover in China; and a \$3.6 million increase in tooling sales. These positive factors were partially offset by lower year-over-year production sales in the Company's operating facility in Brazil; and a \$0.7 million negative foreign exchange impact from the translation of foreign-denominated production sales as compared to the fourth quarter of 2018.

Overall tooling sales increased by \$45.4 million to \$130.6 million for the fourth quarter of 2019 from \$85.2 million for the fourth quarter of 2018.

### Year ended December 31, 2019 to year ended December 31, 2018 comparison

	Year ended December 31, 2019	Year ended December 31, 2018	\$ Change	% Change
North America	\$ 3,066,352	\$ 2,827,527	238,825	8.4%
Europe	672,131	713,861	(41,730)	(5.8%)
Rest of the World	132,670	135,322	(2,652)	(2.0%)
Eliminations	(7,494)	(13,810)	6,316	(45.7%)
Total Sales	\$ 3,863,659	\$ 3,662,900	200,759	5.5%

The Company's consolidated sales for the year ended December 31, 2019 increased by \$200.8 million or 5.5% to \$3,863.7 million as compared to \$3,662.9 million for the year ended December 31, 2018. The total increase in sales was driven by an increase in the North America operating segment, partially offset by year-over-year decreases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2019 in the Company's North America operating segment increased by \$238.8 million or 8.4% to \$3,066.4 million from \$2,827.5 million for the year ended December 31, 2018. The increase was due to the launch of new programs during or subsequent to the year ended December 31, 2018, including the next generation GM Silverado/Sierra, RAM pick-up trucks, the new Chevrolet Blazer, and the Mercedes A-class vehicle platform; an increase in tooling sales of \$139.8 million, which are typically dependent on the timing of tooling construction and acceptance by the customer; and the impact of foreign exchange on the translation of U.S. dollar-denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2019 of approximately \$68.6 million as compared to the corresponding period of 2018. These positive factors were partially offset by lower year-over-year OEM production volumes on certain light-vehicle platforms, including the Ford Escape, Jeep Wrangler and certain Nissan platforms, and programs that ended production during or subsequent to the year ended December 31, 2018. The UAW strike at General Motors, as discussed above, negatively impacted production sales for the year ended December 31, 2019 by approximately \$85.0 million across several platforms.

Sales for the year ended December 31, 2019 in the Company's Europe operating segment decreased by \$41.7 million or 5.8% to \$672.1 million from \$713.9 million for the year ended December 31, 2018. The decrease can be attributed to lower year-over-year production volumes on certain light-vehicle platforms, in particular with Daimler and Jaguar Land Rover, and including programs that ended production during or subsequent to the year ended December 31, 2018; the impact of foreign exchange on the translation of Euro-denominated production sales, which had a negative impact on overall sales for the year ended December 31, 2019 of \$15.4 million as compared to the corresponding period of 2018; and a \$4.5 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the year ended December 31, 2018, including new aluminum engine blocks for Ford, Jaguar Land Rover and Volvo, and an aluminum transmission for Volkswagen.

Sales for the year ended December 31, 2019 in the Company's Rest of the World operating segment decreased by \$2.7 million or 2.0% to \$132.7 million from \$135.3 million for the year ended December 31, 2018. The decrease was due to lower year-over-year production volumes on the Ford Mondeo vehicle platform in China; lower year-over-year production sales in the Company's operating facility in Brazil; and a \$3.6 million negative foreign exchange impact from the translation of foreign-denominated production sales as compared to the corresponding period of 2018. These negative factors were partially offset by higher year-over-year production volumes on the Cadillac CT6 vehicle platform in China; the ramp up of new aluminum structural components work for Jaguar Land Rover in China, which began to ramp up in 2018, but at significantly lower than expected volumes; and a \$0.3 million increase in tooling sales.

Overall tooling sales increased by \$135.6 million to \$404.8 million for the year ended December 31, 2019 from \$269.2 million for the year ended December 31, 2018.

## **GROSS MARGIN**

### ***Three months ended December 31, 2019 to three months ended December 31, 2018 comparison***

	<b>Three months ended December 31, 2019</b>	<b>Three months ended December 31, 2018</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 129,921	\$ 134,567	(4,646)	(3.5%)
% of Sales	14.2%	14.5%		

The gross margin percentage for the fourth quarter of 2019 of 14.2% decreased as a percentage of sales by 0.3% as compared to the gross margin percentage for the fourth quarter of 2018 of 14.5%. The decrease in gross margin as a percentage of sales was generally due to an increase in tooling sales which typically earn low margins for the Company; the impact of the UAW strike at General Motors, which resulted in a significant amount of lost production sales during the month of October, on the Company's margin profile for the quarter; and operational inefficiencies and other costs at certain other facilities including upfront costs incurred in the preparation of upcoming new programs and related to new business in the process of being launched. These negative factors were partially offset by productivity and efficiency improvements at certain operating facilities, and an improvement in general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2018.

**Year ended December 31, 2019 to year ended December 31, 2018 comparison**

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
Gross margin	\$	586,101	\$	556,161	29,940	5.4%
% of Sales		15.2%		15.2%		

The gross margin percentage for the year ended December 31, 2019 of 15.2% was consistent year over year. Gross margin percentage for the year ended December 31, 2019, as compared to year ended December 31, 2018, was positively impacted by productivity and efficiency improvements at certain operating facilities, and general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2018. These positive factors were essentially offset by an increase in tooling sales which typically earn low margins for the Company; the impact of the UAW strike at General Motors, which resulted in approximately six weeks of lost production sales during the months of September and October, on the Company's margin profile; and operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

**SELLING, GENERAL & ADMINISTRATIVE ("SG&A")**

**Three months ended December 31, 2019 to three months ended December 31, 2018 comparison**

	Three months ended December 31, 2019		Three months ended December 31, 2018		\$ Change	% Change
Selling, general & administrative	\$	63,659	\$	58,363	5,296	9.1%
% of Sales		6.9%		6.3%		

SG&A expense for the fourth quarter of 2019 increased by \$5.3 million to \$63.7 million as compared to SG&A expense for the fourth quarter of 2018 of \$58.4 million. The increase can be attributed to higher year-over-year incentive compensation related to deferred/restricted share units and stock option expense of \$4.3 million, and a general increase in employment and other costs to support the evolution of the business and operating margin expansion initiatives. These negative factors were partially offset by a decrease in travel-related expenses and lower year-over-year operating rent expense as a result of the adoption of IFRS 16, which was essentially replaced with depreciation of right-of-use assets.

As a result of the reasons noted above, SG&A expense as a percentage of sales increased year-over-year to 6.9% for the fourth quarter of 2019 compared to 6.3% for the fourth quarter of 2018.

**Year ended December 31, 2019 to year ended December 31, 2018 comparison**

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
Selling, general & administrative	\$	239,683	\$	232,313	7,370	3.2%
% of Sales		6.2%		6.3%		

SG&A expense, before adjustments, for the year ended December 31, 2019 increased by \$7.4 million to \$239.7 million as compared to SG&A expense for the year ended December 31, 2018 of \$232.3 million. Excluding the unusual and other items relating to the Company's operating facility in Brazil, as explained in Table B under "Adjustments to Net Income", SG&A expense for the year ended December 31, 2019 increased by \$11.6 million to \$243.9 million from \$232.3 million for the comparative period in 2018. The increase can be attributed to higher year-over-year incentive compensation based on the performance of the business, including an increase in deferred/restricted share units and stock option expense of \$6.3 million; increased costs incurred at new and/or expanded facilities launching and ramping up new work; and a general increase in employment and corresponding costs to support the evolution of the business and operating margin expansion initiatives. These negative factors were partially offset by a decrease in travel-related expenses and lower year-over-year operating rent expense as a result of the adoption of IFRS 16, which was essentially replaced with depreciation of right-of-use assets.

Excluding adjustments, SG&A expense as a percentage of sales for the year ended December 31, 2019 was generally consistent year-over-year at 6.3%.

**DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT ("PP&E"), RIGHT-OF-USE ASSETS AND AMORTIZATION OF INTANGIBLE ASSETS**

***Three months ended December 31, 2019 to three months ended December 31, 2018 comparison***

	Three months ended December 31, 2019		Three months ended December 31, 2018		\$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	\$	50,620	\$	39,982	10,638	26.6%
Depreciation of PP&E and right-of-use assets (non-production)		3,770		2,971	799	26.9%
Amortization of customer contracts and relationships		513		535	(22)	(4.1%)
Amortization of development costs		3,528		2,788	740	26.5%
<b>Total depreciation and amortization</b>	<b>\$</b>	<b>58,431</b>	<b>\$</b>	<b>46,276</b>	<b>12,155</b>	<b>26.3%</b>

Total depreciation and amortization expense for the fourth quarter of 2019 increased by \$12.2 million to \$58.4 million as compared to \$46.3 million for the fourth quarter of 2018. The increase in total depreciation and amortization expense was due mainly to the adoption of IFRS 16, which added a total of \$7.5 million in incremental depreciation expense on right-of-use assets, and an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the fourth quarter of 2018.

A significant portion of the Company's recent investments in PP&E relates to various new programs that commenced during or subsequent to the fourth quarter of 2018 and new and replacement programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales increased year-over-year to 5.5% for the fourth quarter of 2019 from 4.3% for the fourth quarter of 2018 due to the adoption of IFRS 16, which added incremental depreciation expense on right-of-use assets, and the increased asset base, as noted above.

***Year ended December 31, 2019 to year ended December 31, 2018 comparison***

	Year ended December 31, 2019		Year ended December 31, 2018		\$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	\$	186,592	\$	152,597	33,995	22.3%
Depreciation of PP&E and right-of-use assets (non-production)		14,729		10,701	4,028	37.6%
Amortization of customer contracts and relationships		2,082		2,140	(58)	(2.7%)
Amortization of development costs		13,779		11,342	2,437	21.5%
<b>Total depreciation and amortization</b>	<b>\$</b>	<b>217,182</b>	<b>\$</b>	<b>176,780</b>	<b>40,402</b>	<b>22.9%</b>

Total depreciation and amortization expense for the year ended December 31, 2019 increased by \$40.4 million to \$217.2 million as compared to \$176.8 million for the year ended December 31, 2018. Consistent with the year-over-year increase in the fourth quarter of 2019 as explained above, the increase in total depreciation and amortization expense for the year ended December 31, 2019 was due mainly to the adoption of IFRS 16, which added a total of \$30.8 million in incremental depreciation expense on right-of-use assets, and an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the year ended December 31, 2018.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales increased year-over-year to 4.8% for the year ended December 31, 2019 from 4.2% for the year ended December 31, 2018 due to the adoption of IFRS 16, which added incremental depreciation expense on right-of-use assets, and the increased asset base, as noted above.

## **ADJUSTMENTS TO NET INCOME**

Adjusted Net Income excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

### **TABLE A**

*Three months ended December 31, 2019 to three months ended December 31, 2018 comparison*

	Three months ended December 31, 2019	Three months ended December 31, 2018	(a)-(b) Change
	(a)	(b)	
<b>NET INCOME (A)</b>	<b>\$51,153</b>	<b>\$37,816</b>	<b>\$13,337</b>
<b>Add Back - Unusual and Other Items:</b>			
Loss on derivative instruments (1)	12	448	(436)
Impairment of assets (3)	-	5,436	(5,436)
Restructuring costs (4)	-	2,073	(2,073)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>\$12</b>	<b>\$7,957</b>	<b>(\$7,945)</b>
Tax impact of above items	(2)	(1,933)	1,931
Adjustment to deferred tax asset in the United States (5)	(17,329)	-	(17,329)
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)</b>	<b>(\$17,319)</b>	<b>\$6,024</b>	<b>(\$23,343)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$33,834</b>	<b>\$43,840</b>	<b>(\$10,006)</b>
Number of Shares Outstanding - Basic ('000)	81,267	85,829	
Adjusted Basic Net Earnings Per Share	\$0.42	\$0.51	
Number of Shares Outstanding - Diluted ('000)	81,431	86,032	
Adjusted Diluted Net Earnings Per Share	\$0.42	\$0.51	

**TABLE B***Year ended December 31, 2019 to year ended December 31, 2018 comparison*

	Year ended December 31, 2019 (a)	Year ended December 31, 2018 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$181,221</b>	<b>\$185,883</b>	<b>(\$4,662)</b>
<b>Add Back - Unusual and Other Items:</b>			
Loss on derivative instruments (1)	251	1,887	(1,636)
Net gain in the Company's operating facility in Brazil (2)	(4,199)	-	(4,199)
Impairment of assets (3)	18,502	5,436	13,066
Restructuring costs (4)	8,165	2,073	6,092
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>\$22,719</b>	<b>\$9,396</b>	<b>\$13,323</b>
Tax impact of above items	1,076	(2,113)	3,189
Adjustment to deferred tax asset in the United States (5)	(17,329)	-	(17,329)
<b>TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX(B)</b>	<b>\$6,466</b>	<b>\$7,283</b>	<b>(\$817)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$187,687</b>	<b>\$193,166</b>	<b>(\$5,479)</b>
Number of Shares Outstanding - Basic ('000)	82,487	86,549	
Adjusted Basic Net Earnings Per Share	\$2.28	\$2.23	
Number of Shares Outstanding - Diluted ('000)	82,639	86,988	
Adjusted Diluted Net Earnings Per Share	\$2.27	\$2.22	

**(1) Unrealized loss on derivative instruments**

As further described in note 8 of the consolidated financial statements for the year ended December 31, 2019 and later on in this MD&A under "Investments", Martinrea holds warrants in NanoXplore Inc., a publicly listed graphene company on the TSX Venture Exchange under the ticker symbol GRA. The warrants represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As it relates to the warrants as at December 31, 2019, a loss of \$0.01 million was recognized for the three months ended December 31, 2019 (2018 - loss of \$0.4 million), and a loss of \$0.3 million was recognized for the year ended December 31, 2019 (2018 - loss of \$1.9 million), recorded in other finance expense and added back to Adjusted Net Income.

**(2) Net gain in the Company's operating facility in Brazil**

Included in income for the year ended December 31, 2019 is a non-recurring benefit recognized in the Company's operating facility in Brazil, included in the Rest of the World operating segment. The benefit represents a \$6.5 million recovery of previously paid local social security taxes, partially offset by a \$2.3 million true-up of the facility's claims and litigation provision related to certain employee-related matters. The net benefit, recognized in the third quarter, was recorded in selling, general and administrative expenses.

### (3) Impairment of assets

During the second quarter of 2019, the Company recorded impairment charges on property, plant and equipment, right-of-use assets, intangible assets and inventories totaling \$18.5 million related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light-vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration for where specific assets can be transferred to other facilities.

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it would be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant and equipment totaling \$5.4 million related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company was forced to close because the operation was entirely dependent on GM's facility in Oshawa. The impairment was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

### (4) Restructuring costs

Additions to the restructuring accrual in 2019 totaled \$8.2 million and represent employee-related severance resulting from the rightsizing of operating facilities in Brazil (\$6.2 million), Canada (\$1.7 million) and China (\$0.3 million) during the second quarter.

Additions to the restructuring accrual during 2018 totaled \$2.1 million and represent employee-related severance payouts and lease termination costs resulting from the closure of the operating facility in Ajax, Ontario, as described above.

### (5) Adjustment to deferred tax asset in the United States

In light of recently updated Company-wide business plans approved by the Board of Directors, and in conjunction with the Company's recent financial performance, the Company recognized additional deferred tax assets related to operations in the U.S. as at December 31, 2019. The deferred tax assets recognized at year-end reflect the majority of the full value of the tax loss carryforwards available to the Company, with a corresponding one-time, non-cash decrease in income tax expense of \$17.3 million, as the Company believes it is more likely than not that these assets will be utilized before expiry.

## **NET INCOME**

### ***Three months ended December 31, 2019 to three months ended December 31, 2018 comparison***

	<b>Three months ended December 31, 2019</b>	<b>Three months ended December 31, 2018</b>	<b>\$ Change</b>	<b>% Change</b>
Net Income	\$ 51,153	\$ 37,816	13,337	35.3%
Adjusted Net Income	\$ 33,834	\$ 43,840	(10,006)	(22.8%)
Net Earnings per Share				
Basic and Diluted	\$ 0.63	\$ 0.44		
Adjusted Net Earnings per Share				
Basic and Diluted	\$ 0.42	\$ 0.51		

Net income for the fourth quarter of 2019 increased by \$13.3 million to \$51.2 million from \$37.8 million for the fourth quarter of 2018 largely as a result of the adjustment to the Company's deferred tax asset in the U.S. recorded in the fourth quarter of 2019, as explained in Table A under "Adjustments to Net Income". Excluding all unusual and other items as explained in Table A under "Adjustments to Net Income", adjusted net income for the fourth quarter of 2019 decreased to \$33.8 million or \$0.42 per share, on a basic and diluted basis, from \$43.8 million or \$0.51 per share, on a basic and diluted basis, for the fourth quarter of 2018.

Adjusted Net Income for the fourth quarter of 2019, as compared to the fourth quarter of 2018, was negatively impacted by the following:

- lower gross profit on lower year-over-year production sales due in large part to the UAW strike at General Motors, as previously explained;
- a year-over-year increase in depreciation expense due in large part to the adoption of IFRS 16;

- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in finance expense primarily as a result of interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$0.7 million.

These negative factors were partially offset by the following:

- a lower effective tax rate on adjusted income due generally to the mix of earnings (21.0% for the fourth quarter of 2019 compared to 25.0% for the fourth quarter of 2018);
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a net foreign exchange gain of \$0.4 million for the fourth quarter of 2019 compared to a net foreign exchange loss of \$0.1 million for the fourth quarter of 2018.

### Three months ended December 31, 2019 actual to guidance comparison:

On November 12, 2019, the Company provided the following guidance for the fourth quarter of 2019:

	Guidance	Actual
Production sales (in millions)	\$ 750 - 810	\$ 787
Adjusted Net Earnings per Share Basic & Diluted	\$ 0.35 - 0.45	\$ 0.42

For the fourth quarter of 2019, production sales of \$787.0 million and Adjusted Net Earnings per Share of \$0.42 were within the published sales and earnings guidance ranges provided.

### Year ended December 31, 2019 to year ended December 31, 2018 comparison

	Year ended December 31, 2019	Year ended December 31, 2018	\$ Change	% Change
Net Income	\$ 181,221	\$ 185,883	(4,662)	(2.5%)
Adjusted Net Income	\$ 187,687	\$ 193,166	(5,479)	(2.8%)
Net Earnings per Share				
Basic	\$ 2.20	\$ 2.15		
Diluted	\$ 2.19	\$ 2.14		
Adjusted Net Earnings per Share				
Basic	\$ 2.28	\$ 2.23		
Diluted	\$ 2.27	\$ 2.22		

Net Income for the year ended December 31, 2019 was generally consistent year-over-year decreasing slightly by \$4.7 million to \$181.2 million from \$185.9 million for the year ended December 31, 2018. Excluding the unusual and other items as explained in Table B under "Adjustments to Net Income", adjusted net income for the year ended December 31, 2019 was \$187.7 million or \$2.28 per share, on a basic basis, and \$2.27 on a diluted basis, compared to \$193.2 million or \$2.23 per share, on a basic basis, and \$2.22 per share on a diluted basis, for the year ended December 31, 2018.

Adjusted Net Income for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was negatively impacted by the following:

- a year-over-year increase in depreciation expense due in large part to the adoption of IFRS 16;
- a year-over-year increase in research and development costs due to increased new product and process research and development activity and an increase in program-related development cost amortization;
- a year-over-year increase in SG&A expense as previously discussed;

- a year-over-year increase in finance expense due largely to interest on lease liabilities as a result of the adoption of IFRS 16; and
- the Company's share of loss of an associate in the amount of \$2.0 million.

These negative factors were partially offset by the following:

- a higher gross profit on increased year-over year sales as previously explained;
- a \$0.9 million gain on the disposal of property, plant and equipment for the year ended December 31, 2019 compared to a loss of \$0.5 million for the comparative period of 2018;
- lower operating rent expense due to the adoption of IFRS 16, generally replaced by increases in finance and depreciation expenses; and
- a lower effective tax rate on adjusted income due generally to the mix of earnings (24.2% for the year ended December 31, 2019 compared to 24.6% for the year ended December 31, 2018).

## **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

### ***Three months ended December 31, 2019 to three months ended December 31, 2018 comparison***

	<b>Three months ended December 31, 2019</b>	<b>Three months ended December 31, 2018</b>	<b>\$ Change</b>	<b>% Change</b>
Additions to PP&E	\$ 102,882	\$ 108,011	(5,129)	(4.7%)

Additions to PP&E remained relatively consistent year-over-year decreasing slightly by \$5.1 million to \$102.9 or 11.2% of sales in the fourth quarter of 2019 from \$108.0 million or 11.7% of sales in the fourth quarter of 2018. General timing of expenditures makes quarterly additions to PP&E quite volatile in nature. The Company continues to make investments in the business including in various sales and margin growth projects and in both new and replacement business, as the Company's global footprint expands and as it executes on its backlog of new business in all its various product offerings.

### ***Year ended December 31, 2019 to year ended December 31, 2018 comparison***

	<b>Year ended December 31, 2019</b>	<b>Year ended December 31, 2018</b>	<b>\$ Change</b>	<b>% Change</b>
Additions to PP&E	\$ 312,511	\$ 290,513	21,998	7.6%

Additions to PP&E increased by \$22.0 million year-over-year to \$312.5 million or 8.1% of sales for the year ended December 31, 2019 compared to \$290.5 million or 7.9% of sales for the year ended December 31, 2018. As explained above, the Company continues to make investments in the business, including in various sales and margin growth projects and in both new and replacements business, as the Company's global footprint expands and as it executes on its backlog of new business in all its various product offerings.

## **SEGMENT ANALYSIS**

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by the Company's chief operating decision maker, which is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented and aggregated on a geographic basis between North America, Europe and Rest of the World. The Company measures segment operating performance based on operating income.

**Three months ended December 31, 2019 to three months ended December 31, 2018 comparison**

	SALES		OPERATING INCOME (LOSS) *	
	Three months ended December 31, 2019	Three months ended December 31, 2018	Three months ended December 31, 2019	Three months ended December 31, 2018
North America	\$ 720,185	\$ 735,876	\$ 37,617	\$ 55,762
Europe	158,389	167,533	4,949	10,044
Rest of the World	41,144	27,571	9,263	(390)
Eliminations	(2,137)	(4,826)	-	-
Adjusted Operating Income	-	-	\$ 51,829	\$ 65,416
Unusual and Other Items*	-	-	-	(7,509)
<b>Total</b>	<b>\$ 917,581</b>	<b>\$ 926,154</b>	<b>\$ 51,829</b>	<b>\$ 57,907</b>

\* Operating income for the operating segments has been adjusted for unusual and other items. The \$7.5 million of unusual and other items for the fourth quarter of 2018 was recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

**North America**

Adjusted operating income in North America decreased by \$18.1 million to \$37.6 million or 5.2% of sales for the fourth quarter of 2019 from \$55.8 million or 7.6% for the fourth quarter of 2018 due to lower year-over-year production sales as previously explained. Adjusted Operating Income as a percentage of sales in North America was negatively impacted by the UAW strike at General Motors, which resulted in a significant amount of lost production sales and corresponding contribution during the entire month of October; operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; and higher year-over-year research and development costs and SG&A expenses as previously explained. These negative factors were partially offset by productivity and efficiency improvements at certain operating facilities, and an improvement in general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the fourth quarter of 2018.

**Europe**

Adjusted operating income in Europe decreased by \$5.1 million to \$4.9 million or 3.1% of sales for the fourth quarter of 2019 from \$10.0 million or 6.0% of sales for the fourth quarter of 2018 on lower year-over-year sales as previously explained. Adjusted Operating Income as a percentage of sales decreased year-over-year due generally to lost contribution from the lower sales, negative sales mix, and operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

**Rest of the World**

Adjusted operating income for the Rest of the World operating segment improved year-over-year from essentially a breakeven level in the fourth quarter of 2018 to operating income of \$9.3 million or 22.5% of sales for the fourth quarter of 2019 due to a positive sales mix, lower launch related costs, and productivity and efficiency improvements across the operating facilities in the segment.

**Year ended December 31, 2019 to year ended December 31, 2018 comparison**

	SALES		OPERATING INCOME *	
	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
North America	\$ 3,066,352	\$ 2,827,527	\$ 228,824	\$ 236,626
Europe	672,131	713,861	44,875	46,790
Rest of the World	132,670	135,322	14,606	565
Eliminations	(7,494)	(13,810)	-	-
Adjusted Operating Income	-	-	\$ 288,305	\$ 283,981
Unusual and Other Items*	-	-	(22,468)	(7,509)
<b>Total</b>	<b>\$ 3,863,659</b>	<b>\$ 3,662,900</b>	<b>\$ 265,837</b>	<b>\$ 276,472</b>

\* Operating income for the operating segments has been adjusted for unusual and other items. Of the \$22.5 million of unusual and other items for the year ended December 31, 2019, \$1.7 million was incurred in North America and \$20.8 million in the Rest of the World. The \$7.5 million of unusual and other items for year ended December 31, 2018 was recognized in North America. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.

**North America**

Adjusted operating income in North America decreased by \$7.8 million to \$228.8 million or 7.5% of sales for the year ended December 31, 2019 from \$236.6 million or 8.4% of sales for the year ended December 31, 2018 on higher sales as previously discussed. Adjusted Operating Income as a percentage of sales in North America was negatively impacted by the UAW strike at General Motors, which resulted in approximately six weeks of lost production sales and corresponding contribution during the months of September and October; operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched; and higher year-over-year research and development costs and SG&A expenses as previously explained. These negative factors were partially offset by productivity and efficiency improvements at certain operating facilities, and an improvement in general sales mix including new and replacement programs that launched, and old programs that ended production, during or subsequent to the year ended December 31, 2018.

**Europe**

Adjusted operating income in Europe decreased by \$1.9 million to \$44.9 million or 6.7% of sales for the year ended December 31, 2019 from \$46.8 million or 6.6% of sales for the year ended December 31, 2018 on lower sales as previously explained. Adjusted Operating Income as a percentage of sales increased slightly year-over-year due generally to productivity and efficiency improvements at certain operating facilities; substantially offset by lost contribution from the lower sales, negative sales mix, and operational inefficiencies and other costs at certain other facilities including upfront costs incurred in preparation of upcoming new programs and related to new business in the process of being launched.

**Rest of the World**

Adjusted operating income for the Rest of the World operating segment improved year-over-year on slightly lower sales, as previously explained, from adjusted operating income of \$0.6 million or 0.4% of sales for the year ended December 31, 2018 to adjusted operating income of \$14.6 million or 11.0% of sales for the year ended December 31, 2019 due to a positive sales mix, lower launch related costs, and productivity and efficiency improvements across the operating facilities in the segment.

**SUMMARY OF QUARTERLY RESULTS**  
**(unaudited)**

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	917,581	974,384	948,533	1,023,161	926,154	851,136	921,710	963,900
Gross Margin	129,921	143,901	154,778	157,501	134,567	127,130	150,035	144,429
Net Income for the period	51,153	46,678	28,122	55,268	37,816	36,381	55,727	55,959
Adjusted Net Income*	33,834	43,507	54,570	55,776	43,840	37,169	55,527	56,630
Basic Net Earnings per Share	0.63	0.57	0.34	0.66	0.44	0.42	0.64	0.65
Diluted Net Earnings per Share	0.63	0.56	0.34	0.66	0.44	0.42	0.64	0.64
Adjusted Basic and Diluted Net Earnings per Share*	0.42	0.53	0.66	0.67	0.51	0.43	0.64	0.65

**\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with IFRS. However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS 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 financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt". Please refer to the Company's previously filed annual and interim MD&A of operating results and financial position for the fiscal years 2019 and 2018 for a full reconciliation of IFRS to non-IFRS measures.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's financial condition remains solid, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at December 31, 2019, the Company had total equity of \$1,218.4 million, up from \$1,151.5 million at December 31, 2018. As at December 31, 2019, the Company's ratio of current assets to current liabilities was 1.40:1 (December 31, 2018 - 1.35:1). The Company's current working capital level of \$317.5 million at December 31, 2019 is relatively consistent year-over-year, up only slightly from \$312.6 million at December 31, 2018. Credit facilities (discussed below) are expected to be sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing bank credit facilities or asset based financing.

## Cash flow

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 115,361	\$ 110,781	4,580	4.1%
Change in non-cash working capital items	22,480	(6,232)	28,712	(460.7%)
Interest paid	137,841	104,549	33,292	31.8%
Income taxes paid	(10,504)	(8,546)	(1,958)	22.9%
	(11,526)	(17,450)	5,924	(33.9%)
Cash provided by operating activities	115,811	78,553	37,258	47.4%
Cash used in financing activities	(34,146)	(956)	(33,190)	3,471.8%
Cash used in investing activities	(63,352)	(91,748)	28,396	(30.9%)
Effect of foreign exchange rate changes on cash and cash equivalents	(749)	619	(1,368)	(221.0%)
Increase (decrease) in cash and cash equivalents	\$ 17,564	\$ (13,532)	31,096	(229.8%)

Cash provided by operating activities during the fourth quarter of 2019 was \$115.8 million, compared to cash provided by operating activities of \$78.6 million in the corresponding period of 2018. The components for the fourth quarter of 2019 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$115.4 million;
- working capital items source of cash of \$22.5 million comprised of a decrease in trade and other receivables of \$66.0 million, a decrease in inventories of \$42.8 million, a decrease in prepaid expenses and deposits of \$1.3 million; partially offset by a decrease in trade, other payables and provisions of \$87.6 million;
- interest paid of \$10.5 million; including \$2.3 million related to interest on lease liabilities resulting from the adoption of IFRS 16; and
- income taxes paid of \$11.5 million.

Cash used by financing activities during the fourth quarter of 2019 was \$34.1 million, compared to cash used in financing activities of \$1.0 million in the corresponding period in 2018, as a result of the repurchase of common shares by way of normal course issuer bid (as described in note 16 of the consolidated financial statements for the year ended December 31, 2019) of \$19.6 million, repayment of lease liabilities from the adoption of IFRS 16 of \$6.9 million, \$3.7 million in dividends paid, and a \$4.4 million net decrease in long-term debt (reflecting repayments towards the Company's revolving banking facility and equipment loans); partially offset by \$0.5 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the fourth quarter of 2019 was \$63.4 million, compared to \$91.7 million in the corresponding period in 2018. The components for the fourth quarter of 2019 primarily include the following:

- cash additions to PP&E of \$66.1 million;
- capitalized development costs relating to upcoming new program launches of \$2.7 million; partially offset by
- proceeds from the disposal of PP&E of \$0.7 million; and
- the upfront recovery of development costs incurred of \$4.8 million.

Taking into account the opening cash balance of \$101.4 million at the beginning of the fourth quarter of 2019, and the activities described above, the cash and cash equivalents balance at December 31, 2019 was \$119.0 million.

	Year ended December 31, 2019	Year ended December 31, 2018	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 508,444	\$ 461,012	47,432	10.3%
Change in non-cash working capital items	(1,283)	(36,752)	35,469	(96.5%)
Interest paid	507,161	424,260	82,901	19.5%
Income taxes paid	(41,916)	(30,855)	(11,061)	35.8%
	(63,698)	(96,703)	33,005	(34.1%)
Cash provided by operating activities	401,547	296,702	104,845	35.3%
Cash provided by (used in) financing activities	(37,889)	20,181	(58,070)	(287.7%)
Cash used in investing activities	(312,506)	(319,757)	7,251	(2.3%)
Effect of foreign exchange rate changes on cash and cash equivalents	(2,341)	1,843	(4,184)	(227.0%)
Increase (decrease) in cash and cash equivalents	\$ 48,811	\$ (1,031)	49,842	(4,834.3%)

Cash provided by operating activities during the year ended December 31, 2019 was \$401.5 million, compared to cash provided by operating activities of \$296.7 million in the corresponding period of 2018. The components for the year ended December 31, 2019 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$508.4 million;
- working capital items use of cash of \$1.3 million comprised of a decrease in inventories of \$70.1 million and a decrease in trade and other receivables of \$12.8 million; partially offset by a decrease in trade, other payables and provisions of \$80.5 million and an increase in prepaid expenses and deposits of \$3.7 million;
- interest paid of \$41.9 million; and
- income taxes paid of \$63.7 million.

Cash used in financing activities during the year ended December 31, 2019 was \$37.9 million, compared to cash provided of \$20.2 million in the corresponding period in 2018, as a result of the repurchase of common shares by way of normal course issuer bid (as described in note 16 of the consolidated financial statements for the year ended December 31, 2019) of \$57.8 million, repayment of lease liabilities from the adoption of IFRS 16 of \$27.9 million, and \$14.9 million in dividends paid; partially offset by a \$60.9 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility of \$91.4 million, partially offset by repayments made on equipment loans of \$30.6 million), and \$1.9 million in proceeds from the exercise of employee stock options.

Cash used in investing activities during the year ended December 31, 2019 was \$312.5 million, compared to \$319.8 million in the corresponding period in 2018. The components for the year ended December 31, 2019 primarily include the following:

- cash additions to PP&E of \$284.0 million;
- capitalized development costs relating to upcoming new program launches of \$10.7 million;
- an investment in NanoXplore Inc. (as described in note 8 of the consolidated financial statements for the year ended December 31, 2019) of \$29.5 million; partially offset by
- proceeds from the disposal of PP&E of \$6.2 million; and
- the upfront recovery of development costs incurred of \$5.6 million.

Taking into account the opening cash balance of \$70.2 million at the beginning of 2019, and the activities described above, the cash and cash equivalents balance at December 31, 2019 was \$119.0 million.

## Free Cash Flow

	Three months ended December 31, 2019	Three months ended December 31, 2018	\$ Change
Adjusted EBITDA	\$ 110,534	\$ 111,785	(1,251)
Add (deduct):			
Change in non-cash working capital items	22,480	(6,232)	28,712
Cash purchase of property, plant and equipment	(66,134)	(88,241)	22,107
Cash proceeds on disposal of property, plant and equipment	677	449	228
Capitalized development costs	(2,691)	(4,077)	1,386
Upfront recovery of capitalized development costs	4,796	121	4,675
Interest on long-term debt, net of capitalized interest	(6,741)	(7,013)	272
Cash income taxes	(11,526)	(17,450)	5,924
Free cash flow	51,395	(10,658)	62,053

Free cash flow increased this quarter primarily as a result of:

- a decrease in non-cash working capital items as previously noted;
- lower purchases of property, plant and equipment;
- lower cash income taxes;
- an increase in the upfront recovery of capitalized development costs; and
- lower capitalized development costs;

All tooling-related working capital accounts, including inventory, trade receivables and trade payables on a net basis, decreased to \$59.4 million as at December 31, 2019, from \$94.9 million as at September 30, 2019 and \$115.2 million as at December 31, 2018.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the three months ended December 31, 2019 and 2018:

	Three months ended December 31, 2019	Three months ended December 31, 2018
Cash provided by operating activities	\$ 115,811	\$ 78,553
Add (deduct):		
Cash purchases of property, plant and equipment	(66,134)	(88,241)
Cash proceeds on disposal of property, plant and equipment	677	449
Capitalized development costs	(2,691)	(4,077)
Upfront recovery of capitalized development costs	4,796	121
Restructuring costs	-	2,073
Interest on long-term debt, net of capitalized interest	(6,741)	(7,013)
Interest paid	10,504	8,546
Unrealized gain (loss) on foreign exchange contracts	786	(634)
Deferred and restricted share units expense	(4,463)	(65)
Stock options expense	(303)	(368)
Pension and other post-employment benefits expense	(754)	(501)
Contributions made to pension and other post-retirement benefits expense	502	558
Net unrealized foreign exchange loss and other income	(595)	(59)
Free cash flow	\$ 51,395	\$ (10,658)

	Year ended December 31, 2019	Year ended December 31, 2018	\$ Change
Adjusted EBITDA	\$ 504,555	\$ 461,223	43,332
Add (deduct):			
Change in non-cash working capital items	(1,283)	(36,752)	35,469
Cash purchase of property, plant and equipment	(284,011)	(309,049)	25,038
Cash proceeds on disposal of property, plant and equipment	6,166	1,577	4,589
Capitalized development costs	(10,747)	(14,171)	3,424
Upfront recovery of capitalized development costs	5,563	2,566	2,997
Interest on long term debt, net of capitalized interest	(29,695)	(27,358)	(2,337)
Cash income taxes	(63,698)	(96,703)	33,005
Free cash flow	126,850	(18,667)	145,517

Free cash flow increased for the year ended December 31, 2019 primarily as a result of:

- higher Adjusted EBITDA - approximately 8% of the year-over-year growth relates to the adoption of IFRS 16;
- a positive year-over-year change in non-cash working capital items as previously noted;
- lower cash income taxes;
- lower purchases of property, plant and equipment;
- higher proceeds on disposal of property, plant and equipment;
- lower capitalized development costs; and
- an increase in the upfront recovery of capitalized development costs; partially offset by
- higher interest on long-term debt as a result of increased debt levels and borrowing costs.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the year ended December 31, 2019 and 2018:

	Year ended December 31, 2019	Year ended December 31, 2018
Cash provided by operating activities	\$ 401,547	\$ 296,702
Add (deduct):		
Cash purchases of property, plant and equipment	(284,011)	(309,049)
Cash proceeds on disposal of property, plant and equipment	6,166	1,577
Capitalized development costs	(10,747)	(14,171)
Upfront recovery of capitalized development costs	5,563	2,566
Restructuring costs	8,165	2,073
Interest on long-term debt, net of capitalized interest	(29,695)	(27,358)
Interest paid	41,916	30,855
Unrealized gain on foreign exchange contracts	418	66
Deferred and restricted share units expense	(8,224)	(2,454)
Stock options expense	(1,195)	(651)
Unusual and other items - gain in the Company's operating facility in Brazil (included in SG&A expense)	(4,199)	-
Pension and other post-employment benefits expense	(4,140)	(4,066)
Contributions made to pension and other post-retirement benefits expense	4,751	4,842
Net unrealized foreign exchange loss and other income	535	401
Free cash flow	\$ 126,850	\$ (18,667)

## **Financing**

On July 23, 2018, the Company's banking facility was amended to extend its maturity date and enhance certain provisions of the facility. The primary terms of the amended banking facility, with now a syndicate of ten banks (up from nine), include the following:

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of \$370 million and US \$420 million (up from \$350 million and US \$400 million, respectively);
- available asset based financing capacity of \$300 million (up from \$205 million);

- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US \$200 million (up from US \$150 million);
- pricing terms at market rates and consistent with the previous facility;
- a maturity date of July 2022; and
- no mandatory principal repayment provisions.

As at December 31, 2019, the Company has drawn US\$301,000 (December 31, 2018 - US\$286,000) on the U.S. revolving credit line and \$328,000 (December 31, 2018 - \$273,000) on the Canadian revolving credit line.

#### Debt leverage ratios:

<b>Excluding the impact of IFRS 16:</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Long-term debt	\$ 781,573	\$ 793,246	\$ 785,843	\$ 809,552	\$ 740,717
	781,573	793,246	785,843	809,552	740,717
Less: Cash and cash equivalents	(118,973)	(101,409)	(90,140)	(76,447)	(70,162)
<b>Net Debt</b>	<b>\$ 662,600</b>	<b>\$ 691,837</b>	<b>\$ 695,703</b>	<b>\$ 733,105</b>	<b>\$ 670,555</b>
Trailing 12-month Adjusted EBITDA*	\$ 468,355	\$ 478,692	\$ 469,140	\$ 466,347	\$ 461,223
<b>Net Debt to Adjusted EBITDA ratio*</b>	<b>1.41x</b>	<b>1.45x</b>	<b>1.48x</b>	<b>1.57x</b>	<b>1.45x</b>

\*Debt leverage ratios for 2019 periods have been calculated using Adjusted EBITDA inclusive of rent expense as if IFRS 16 was not adopted.

<b>Including the impact of IFRS 16:</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>January 1, 2019</b>
Long-term debt	\$ 781,573	\$ 793,246	\$ 785,843	\$ 809,552	\$ 740,717
Lease liabilities	202,352	210,991	217,654	221,754	228,623
	983,925	1,004,237	1,003,497	1,031,306	969,340
Less: Cash and cash equivalents	(118,973)	(101,409)	(90,140)	(76,447)	(70,162)
<b>Net Debt</b>	<b>\$ 864,952</b>	<b>\$ 902,828</b>	<b>\$ 913,357</b>	<b>\$ 954,859</b>	<b>\$ 899,178</b>
Trailing 12-month Adjusted EBITDA*	\$ 504,555	\$ 513,813	\$ 503,162	\$ 499,194	\$ 492,630
<b>Net Debt to Adjusted EBITDA ratio*</b>	<b>1.71x</b>	<b>1.76x</b>	<b>1.82x</b>	<b>1.91x</b>	<b>1.83x</b>

\*As comparative periods prior to 2019 have not been restated, debt leverage ratios have been calculated using proforma Adjusted EBITDA to remove rent expense as if IFRS 16 was adopted retrospectively.

The Company's net debt (excluding the impact of adopting IFRS 16 and as outlined above) decreased by \$29.2 million during the fourth quarter to \$662.6 million from \$691.8 million at the end of the third quarter of 2019. The Company's net debt to Adjusted EBITDA ratio (excluding the impact of adopting IFRS 16 and as outlined above) decreased during the quarter to 1.41x from 1.45x at the end of the third quarter of 2019, and from 1.45x at the end of 2018.

The Company was in compliance with its debt covenants as at December 31, 2019. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16.

On January 30, 2019, the Company finalized an additional equipment loan in the amount of €10,900 (\$16,602) repayable in monthly installments over six years starting in 2020 at a fixed annual interest rate of 1.40%.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23,000 (\$36,886) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans, without penalty, at fixed annual interest rates of 3.06%, 4.34% and 4.93% that originally matured in 2024, 2025 and 2023, respectively.

## **Dividends**

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends were to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013, with successive quarterly dividends paid thereafter.

Early in 2018, in view of the Company's financial performance, and its future outlook and cash needs, the Board decided to increase the annual dividends by 50% to \$0.18 per share, to be paid in four quarterly installments of \$0.045 per share, commencing with the release of the first quarter results of 2018. The first such increased dividend was paid on July 15, 2018. The Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

## **RISKS AND UNCERTAINTIES**

The following risk factors, as well as the other information contained in this MD&A, the Company's Annual Information Form for the year ended December 31, 2019 ("AIF") (of which the section entitled "Automotive Industry Trends and Highlights" contained in the AIF is incorporated by reference herein) or otherwise incorporated herein by reference (including the trends in the AIF), 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.

The Company's success is primarily dependent upon the levels of 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.

### **North American and Global Economic and Political Conditions and Epidemics or Pandemics**

The automotive industry is global, and is cyclical in the fact that it is sensitive to changes in economic and political conditions, including interest rates, currency issues, energy prices, trade issues, international or domestic conflicts or political crises, and epidemics or pandemics, such as the strain of coronavirus that surfaced in December 2019 in Wuhan, China, and which has spread to other countries, with reports of confirmed cases in the several other countries. At this point, the extent to which the coronavirus may impact our results is uncertain but it may have an effect or disrupt our supply chain.

The Company operates in the midst of a volatile industry, which in the past decade has experienced a significant recession, particularly severe in North America and Europe. Although there has been stabilization or growth in North America for the past decade, current conditions continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the future. While the Company believes it has sufficient liquidity and a strong balance sheet to deal with present economic conditions, lower sales and production volumes in certain areas may occur. It is unknown at this stage the impact of global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. (See "Trade Policies and Resulting Impact (USMCA, NAFTA, Brexit and the CPTPP)" above under "Automotive Industry General" and "Changes in Law and Governmental Regulation" below.)

Consumer confidence has a significant impact on consumer demand for vehicles, which in turn impacts vehicle production. A significant decline in vehicle production volumes from current levels could have a material adverse effect on profitability.

### **Automotive Industry Risks**

The automotive industry is generally viewed as highly cyclical. It is dependent on, among other factors, consumer spending and general economic conditions in North America and elsewhere. Future sales and production volumes are anticipated to be relatively flat or stable in North America over the next several years, but volume levels are uncertain, and volume levels can decrease at any time. In Europe, the automotive industry has significant overcapacity as well as reduced sales and production levels, which can lead to downsizing and restructuring costs, or costs associated with overcapacity. Increased emphasis on the reduction of fuel consumption, fuel emissions and 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 or European automotive production overall or on specific platforms will not 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 automobiles overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants. It is unknown at this stage the impact of global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. See "Description of the Business and Trends: Trade Policies and Resulting Impact (USMCA, NAFTA, Brexit and the CPTPP)" above and "Changes in Law and Governmental Regulation" below.

### **Dependence Upon Key Customers**

North America, Europe, Brazil and China are key auto producing regions for us and operating results are primarily dependent on car and light truck production in these regions by our customers. Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, reduced sales of automotive platforms of such customers, or shift in market share on vehicles on which we have significant content, or a significant or sustained decline in vehicle production volumes in geographic areas in which the Company operates, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. Although the Company continues to diversify its business, there is no assurance that it will be successful. In addition, a work disruption at one or more of the Company's customers, including resulting from labour stoppages at or insolvencies of key suppliers to such customers or an extended customer shutdown (scheduled or unscheduled, including as a result of coronavirus ) could have a significant impact on the Company's revenue and/or profitability. Our largest North American customers typically halt production for approximately two weeks in July and one week in December. These typically seasonal shutdowns could cause fluctuations in the Company's quarterly results.

### **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, including trade volatility, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (including fires, hurricanes, earthquakes, whether as a result of climate change or otherwise, pandemics or epidemics) and scarcity of raw materials can result in many automotive suppliers experiencing varying degrees of financial distress. In addition, pandemics or epidemics can also cause suppliers to experience financial distress, such as the strain of coronavirus that surfaced in December 2019 in Wuhan, China, and which has spread to other countries, with reports of confirmed cases in the several other countries. At this point, the extent to which the coronavirus may impact our results is uncertain but it may have an effect or disrupt our supply chain. 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. Martinrea has experienced supply disruptions of varying natures in the past, including in cases where an equipment supplier has gone out of business, or an act of God resulted in the shortage of a key commodity. There is a risk some suppliers may not have adequate capacity to timely accommodate increases in demand for their products which could lead to production disruption for the customer. Any prolonged disruption in the supply of critical components, the inability to re-source production of a critical component from a 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 operations or profitability. Additionally, the insolvency, bankruptcy, financial restructuring or force majeure event of any critical suppliers could result in the Company incurring unrecoverable costs related to the financial work-out or resourcing costs 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, each of which could have an adverse effect on the Company's profitability. Also see "Risks: Dependence Upon Key Customers" and "Environmental Regulation".

### **Competition**

The markets for fluid management systems, cast aluminum products and fabricated metal products, assemblies and systems for automotive and industrial customers are highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources and higher market share than the Company in certain products or geographic areas. 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 continuing 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 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. Typical purchase orders issued by customers do not require 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 product development, design, engineering, prototype and validation 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 aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. In 2018 and 2019, the Company and the industry has experienced steel and aluminum tariffs imposed by the U.S. and Canada, among others, in the context of trade negotiations. Martinrea has attempted to mitigate its exposure to price changes of key commodities, particularly steel, aluminum and scrap (including through participation in steel resale programs or price adjustment mechanisms and, in the case of tariffs, largely through obtaining tariff relief in most cases); 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, by avoiding tariffs or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also have an impact on production or transportation costs which in turn could affect competitiveness.

### **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 any favourable terms in collective bargaining agreements that may lower cost structures, OEMs may insource some production which had previously been outsourced, or not outsource production which may otherwise be outsourced at some point. 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.

### **Product Warranty, Recall and Liability Risk**

Automobile manufacturers are increasingly requesting that each of their suppliers bear 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 a material adverse effect on the Company's operations and financial condition.

### **Product Development and Technological Change**

The automotive industry is 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, and delivering lightweighting and other products or systems that will enable it to continue to have content on the cars of the future (including for example, electric and autonomous vehicles). 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 effect 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, who set the culture, hire the talent, provide strategic direction, oversee operational excellence and drive financial discipline of the Company. The experience and talents of these individuals has been and 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.

The Company's business depends on its ability to attract, develop and retain experienced and highly skilled personnel. Such personnel are in high demand in the areas in which we compete, and competition for their services is intense. As a result of the rapid changes and the intense competition in the automotive industry, the Company has a growing need for skilled people and the Company may face substantial competition for such personnel, from traditional and less traditional sources. The inability to attract and retain highly-skilled personnel could have an adverse effect on the Company's operations and its ability to fully implement its business strategy.

### **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. Additional equity financings may result in substantial dilution to existing shareholders.

### **Acquisitions**

The Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products, at competitive prices. The Company intends to continue to pursue acquisitions in those product areas which we have identified as key to the Company's long-term business strategy. However, as a result of intense competition in these strategic areas, the Company may not be able to acquire the targets needed to achieve our strategic objectives.

The completion of such transactions poses additional risks to the Company's business. Acquisitions are subject to a range of inherent risks, including the assumption of incremental regulatory/compliance, pricing, supply chain, commodities, labour relations, litigation, environmental, pensions, warranty, recall, IT, tax or other risks. Although the Company seeks to conduct appropriate levels of due diligence on acquisition targets, these efforts may not always prove to be sufficient in identifying all risks and liabilities related to the acquisition, including as a result of: limited access to information; time constraints for conducting due diligence; inability to access target company facilities and/or personnel; or other limitations in the due diligence process. Additionally, the Company may identify risks and liabilities that cannot be sufficiently mitigated through appropriate contractual or other protections. The realization of any such risks could have a material adverse effect on the Company's operations or profitability.

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, and the Company may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). 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. Such transactions may involve partners, and the formula for determining contractual sale provisions may be subject to a variety of factors that may not be easily quantified or estimated until the time of sale (such as market conditions and determining fair market value).

## **Private or Public Equity Investments in Technology Companies**

In addition to the Company's development activities, the Company has invested approximately \$37 million in NanoXplore Inc. and other technology companies. Such investments are an important element of the Company's long-term strategy and the Company may make further private equity investments in such companies. Investing in such companies involves a high degree of risk, including the potential loss of some or all of the investment value. In addition, where there is no public market for the shares of the investments in start-ups, the Company may be unable to monetize its equity investments in the future. The materialization of such investment-related risks could have an adverse effect on our profitability and financial condition.

## **Joint Ventures**

The Company has in the past and may from time to time conduct certain of its operations through joint ventures under contractual arrangements under which it shares management responsibilities with one or more partners. Joint venture operations carry a range of risks, including those relating to: failure of a joint venture partner to satisfy contractual obligations; potential conflicts between the Company and the joint venture partner; strategic objectives of joint venture partner(s) that may differ from the Company's; potential delays in decision-making; a more limited ability to control legal and regulatory compliance within the joint venture(s); and other risks inherent to non-wholly-owned operations. The likelihood of such occurrences and potential effect on the Company may vary depending on the joint venture arrangement; however, the occurrence of any such risks could have an adverse effect on the Company's operations, profitability and reputation;

## **Potential Rationalization Costs and Turnaround Costs**

The Company has incurred restructuring costs over the past several years, sometimes in conjunction with the cancelation of a customer program or the closing of a customer plant. 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 or alterations, 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. The continued underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

## **Launch and Operational Costs**

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years.

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner, or which may not be performing at expected levels of profitability. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability.

From time to time, the Company may have some operating divisions which are not performing at expected levels of profitability. The complexity of automotive manufacturing operations often makes it difficult to achieve a quick turnaround of underperforming divisions. Significant underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

## **Labour Relations Matters**

The Company has a significant number of its employees subject to collective bargaining agreements, as do many of the Company's customers and suppliers. To date, the Company has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes (including labour disputes of the Company's customers and suppliers), whether in the context of potential restructuring or in connection with negotiations undertaken to ensure a division's competitiveness, or otherwise, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations. The Company

cannot predict whether and when any labour disruption may arise or how long such disruption could last. A significant labour disruption could lead to a lengthy shutdown of the Company or its customers' or suppliers' facilities or production lines, which could have a material adverse effect on the Company's operations and profitability.

### **Trade Restrictions**

The global growth of the automotive industry has been aided by the free movement of goods, services, people and capital through bilateral and regional trade agreements, particularly in North America and Europe. In Europe, for example, uncertainty remains regarding the impact of Brexit – the United Kingdom's decision to withdraw from the European Union – and the nature of any trade agreements or arrangements that may result. Introduction of measures which impede free trade, including new or increased tariffs and other trade barriers, could have a material adverse effect on the Company's operations and profitability. (See also "Changes in Laws and Governmental Regulations").

Current international trade disputes could, among other things, reduce demand for and production of vehicles, disrupt global supply chains, distort commodity pricing, impair the ability of automotive suppliers and vehicle manufacturers to make efficient long-term investment decisions, create volatility in relative foreign exchange rates, and contribute to stock market volatility.

### **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 NAFTA (now USMCA), the CPTPP or Brexit, the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States or China (such as increased tariffs or investigations relating to anti-dumping) or positive or negative changes in tax or other legislation. In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs. Changes in legislation or regulation could lead to additional administrative burden and costs in general, and also carry the potential of a material fine or significant reputational risk. Changes in laws or regulations could also result in the Company shifting its operations to more favourable jurisdictions (see "Litigation and Regulatory Compliance and Investigations", "Potential Rationalization and Turnaround Costs" and "Currency Risk - Competitiveness in Certain Jurisdictions").

### **Litigation and Regulatory Compliance and Investigations**

The Company has been and is involved in litigation from time to time and has received, in the past, letters from third parties alleging claims and claims have been made against it including those described under "Legal Proceedings". Although litigation claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. 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. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome or determine the amount of any potential losses or the success of any claim or of any law suit referenced under "Legal Proceedings" and any other claims to which the Company may be subject. In addition, there is no assurance that the Company will be successful in a litigation matter. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations. See "Legal Proceedings". The Company's policy is to comply with all applicable laws. However, the Company or its directors and officers may also be subject to regulatory risk in the markets in which it operates (for example, antitrust and competition regulatory authorities, tax authorities, anti-bribery and corruption authorities, cybersecurity risk and privacy legislation such as GDPR). Regulatory investigations, if any, can continue for several years, and depending on the jurisdiction and type of proceeding can result in administrative or civil or criminal penalties that could have a material adverse effect on the Company's profitability or operations (even where the Company or any of its officers or directors is innocent, investigations can be expensive to defend). Additionally, the Company could be subject to other consequences including reputational damage, which could have a material adverse effect on the Company.

### **Quote/Pricing Assumptions**

The time between award of new production business and start of production typically ranges between two and four years. Since product pricing is typically determined at the time of award, the Company is subject to significant pricing risk due to changes in input costs and quote assumptions between the time of award and start of production. The inability to quote effectively, or the occurrence of a material

change in input cost or other quote assumptions between program award and production, could have an adverse effect on the Company's profitability.

### **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 hedging activities to mitigate the risk of identified exchange rate exposures. 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**

Currency fluctuations may negatively or positively affect the competitiveness of the Company's operations in a particular jurisdiction. As a result, the Company may move some existing work to another country, or may source work to different divisions, in order for the Company to remain or become competitive. Any work shifts may entail significant restructuring and other costs as work is shifted, as plants are consolidated, downsized or closed, or as plants in other jurisdictions 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 (which tend to include a shutdown period in each of July and December), pricing policies, launch costs, or operational (or equipment or systems) failures, 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, an economic shock not contemplated in our business plan, a rapid deterioration of conditions or limitations on spending. The occurrence of or a prolonged recession could result in the depletion of our cash resources, which could have a material adverse effect on our operations and financial condition.

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

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Company. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of the Company to continue its business as presently constituted. The Company has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected and corrected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, the Company assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. The Company's current system of internal and disclosure controls also places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

### **Environmental Regulation and Climate Change**

The Company is subject to a variety of environmental regulations by the federal, provincial and municipal authorities in Canada, the United States, Mexico, South America, Europe, China and Japan that govern, among other things, soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases, into the environment; and health and safety. If the Company fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators or become subject to litigation. Environmental and pollution control laws, regulations and permits, and the enforcement thereof, change frequently, have tended to become more stringent over time and may necessitate substantial capital expenditures or operating costs. Environmental regulation in any one jurisdiction in which the Company operates may impact the business of the Company to the extent that jurisdiction becomes less competitive. In addition to the foregoing, the Company may also incur costs and expenses resulting from environmental compliance, contamination or incidents, such as any changes to facilities to address physical, health and safety or regulatory constraints, repair or

rebuilding facilities impacted by adverse weather events, or research and development activities related to more environmentally efficient operations and processes, as well as other potential costs. (See also “Financial Viability of Suppliers”.)

Under certain environmental requirements, the Company could be responsible for costs relating to any contamination at the Company's or a predecessor entity's current or former owned or operated properties or third-party waste-disposal sites, even if the Company was not at fault. In addition to potentially significant investigation and cleanup costs, contamination can give rise to third-party claims for fines or penalties, natural resource damages, personal injury or property damage.

The Company and its customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility, which may impact the Company's business and operations. The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address environmental concerns of its customers. Despite these efforts, evolving customer concerns could negatively affect the Company's reputation and financial performance.

The Company requires compliance with its policies both internally and, where relevant, for its suppliers. Although the Company requires its suppliers to comply with these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs, potentially causing shortages in products, delays in delivery or other disruptions in operations. (See “Supply Chain Responsibility”.)

The Company's operations may also be impacted by any environmental policies or incidents at any of its customers or suppliers to the extent that it affects production or volumes.

Extreme weather events such as floods and windstorms and other natural disasters such as earthquakes, tsunamis or hurricanes, including extreme weather caused by climate change, could cause catastrophic destruction to some of the Company's or the Company's suppliers' facilities, which could have a material impact on the availability of a product, disrupt the Company's production and/or prevent the Company from supplying products to its customers. The Company has policies and procedures in place to mitigate such risk and to obtain alternate supply, where practical, however it may not be possible in all cases or for a critical component. Physical risks related to extreme weather events or natural disasters cannot be predicted and the frequency and severity of any such event can vary including by region. Any interruption to the Company's supply of product or resulting changes in price to the Company could lower the Company's revenues, increase its operating costs and impact its financial results. A catastrophic destruction of the Company's or the Company's suppliers' facilities could have a material adverse effect on the Company's operations and profitability. (See also “Financial Viability of Suppliers”.)

The Company cannot provide assurances that the Company's costs, liabilities and obligations or any resulting impact on its revenues due to customer requirements or changes in supply chain requirements relating to environmental matters (or any issues that may arise as a result of its customers' or suppliers' own environmental compliance or incidents, including any environmental compliance or incidents or trends that may impact their businesses) or from environmental matters in general, including any arising from climate change, will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

### **A Shift Away from Technologies in Which the Company is Investing**

The Company continues to invest in technology and innovation which the Company believes will be critical to its long-term growth. The Company's ability to anticipate changes in technology and trends and to successfully develop and introduce new and enhanced products and/or manufacturing processes on a timely basis will be a significant factor in its ability to remain competitive. If there is a shift away from the use of technologies in which the Company is investing, or a change in trends its costs may not be fully recovered. In addition, the Company may be placed at a competitive disadvantage if other technologies in which the investment is not as great, or the Company's expertise is not as developed, emerge as the industry-leading technologies. This could have a material adverse effect on the Company's profitability and financial condition.

### **Competition with Low Cost Countries**

The competitive environment in the automotive industry has intensified as customers seek to take advantage of low wage costs in China, Korea, Thailand, India and other low-cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low-cost countries. 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.

### **The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets**

Many of the Company's customers have sought, and will likely continue to seek to take advantage of lower operating costs and/or other advantages in China, India, Brazil, Russia and other growing markets. While the Company continues to expand its manufacturing footprint with a view to taking advantage of manufacturing opportunities in some of these markets, the Company cannot guarantee that it will be able to fully realize such opportunities. The inability to quickly adjust its manufacturing footprint to take advantage of manufacturing opportunities in these markets could harm its ability to compete with other suppliers operating in or from such markets, which could have an adverse effect on its profitability.

### **Risks of conducting business in foreign countries, including China, Brazil and other growing markets**

The Company has or may establish foreign manufacturing, assembly, product development, engineering and research and development operations in foreign countries, including in Europe, China and Brazil. International operations are subject to certain risks inherent in doing business abroad, including:

- political, civil and economic instability;
- corruption risks;
- trade, customs and tax risks;
- currency exchange rates and currency controls;
- limitations on the repatriation of funds;
- insufficient infrastructure;
- restrictions on exports, imports and foreign investment;
- environmental risk;
- increases in working capital requirements related to long supply chains;
- difficulty in protecting intellectual property rights; and
- different and challenging legal systems.

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability. Current relations, trade and otherwise, between China, the U.S. and Canada have increased some of the risks of operating in China and dealing with Chinese operations.

### **Potential Tax Exposures**

The Company may incur losses in some countries which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax exposures arising out of changes in tax laws, tax reassessments or otherwise. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions that are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain historical value added tax credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 23 to the Company's consolidated financial statements for the year ended December 31, 2019). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability.

## **Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates.**

The Company's effective tax rate varies in each country in which it conducts business. Changes in its mix of earnings between jurisdictions with lower tax rates and those with higher tax rates could have a material adverse effect on the Company's profitability.

## **Pension Plans and other post employment benefits**

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2019, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2019, 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 some amounts in 2020 and beyond. 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 Note 14 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2019, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2019.

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, 2019, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2020 and beyond 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 14 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2019, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2019.

## **Impairment Charges**

The Company may take, in the future, significant impairment charges, including charges related to long-lived assets. The early termination, loss, renegotiation of the terms of, or delay in the implementation of, any significant production contract could be indicators of impairment. In addition, to the extent that forward-looking assumptions regarding: the impact of turnaround plans on underperforming operations; new business opportunities; program price and cost assumptions on current and future business; the timing and success of new program launches; and forecast production volumes, are not met, any resulting impairment loss could have a material adverse effect on the Company's profitability.

## **Cybersecurity Threats**

The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective IT systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

## **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, 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, litigation involving the Company or its officers and general market or economic conditions.

In certain circumstances that the Company determines that its share price is undervalued, the Company may use funds that would otherwise be available for its operations or other uses, to repurchase its own shares as an investment. However, there can be no assurances that any such repurchase of shares will have a positive impact on the Company's share price.

## **Dividends**

The declaration and payment of dividends, including the dividend rate, is subject to the Board's discretion taking into account the Company's cash flow, capital requirements, financial condition and other factors the Board considers relevant. These factors are, in turn, subject to various risks, including the risk factors set out above. While the Company aims to pay a consistent dividend and may increase the dividend over time, the Company's Board may in certain circumstances determine that it is in the best interests of the Company to reduce or suspend the dividend. In such event, the trading price of the Common Shares of the Company may be materially affected.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 5, 2020, the Company had 80,162,883 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 5, 2020, options to acquire 3,110,700 common shares were outstanding.

During 2018, the Company received approval from the Toronto Stock Exchange ("TSX") to acquire for cancellation, by way of normal course issuer bid ("NCIB"), up to 4,348,479 common shares of the Company. The bid commenced on August 31, 2018 and spanned a 12-month period.

During 2018, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of \$25.5 million, resulting in a decrease to stated capital of \$17.7 million and a decrease to retained earnings of \$7.8 million. The shares were purchased and cancelled directly under the NCIB.

At the end of 2018, the Company entered into an Automatic Share Repurchase Plan ("ASRP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares under the ASRP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASRP for an aggregate purchase price of \$26.3 million, resulting in a decrease to stated capital of \$18.1 million and a decrease to retained earnings of \$8.2 million. The shares were purchased and cancelled directly under the NCIB.

During the third quarter of 2019, the Company renewed the NCIB receiving approval from the TSX to acquire for cancellation, up to an additional 8,000,000 common shares of the Company. The renewed bid commenced on August 31, 2019 and spans a 12-month period.

During the third and fourth quarters of 2019, the Company purchased for cancellation an aggregate of 2,600,025 common shares for an aggregate purchase price of \$31.5 million, resulting in a decrease to stated capital of \$21.4 million and a decrease to retained earnings of \$10.1 million. The shares were purchased for cancellation directly under the NCIB.

## **CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING**

At December 31, 2019, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>4-5 years</b>	<b>Thereafter</b>	<b>Total</b>
Purchase obligations (i)	348,768	-	-	-	-	-	348,768
Long-term debt	15,651	15,951	733,844	8,442	7,685	-	781,573
Contractual lease obligations	35,405	30,601	26,718	24,397	20,040	77,400	214,561
Total Contractual obligations	399,824	46,552	760,562	32,839	27,725	77,400	1,344,902

(i) Purchase obligations consist of those related to inventory, services, tooling and fixed assets in the ordinary course of business.

### **Guarantees**

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and last amended in 2019 that provide direct financing for specific programs. As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production. 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, 2019 the amount of off-balance-sheet program financing was \$22.2 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company received reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

### **Hedge Accounting**

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

#### *Cash flow hedges:*

During the year ended December 31, 2018, the Company started hedging variability in cash flows of certain forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales in a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects net income (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in net income.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net income, at the earlier of when the hedged item affects net income, or when the forecasted item is no longer expected to occur.

### Net investment hedges:

The Company continues to use some portion of its U.S. dollar-denominated long-term debt to manage foreign exchange rate exposures on net investments in certain U.S. operations.

The change in fair value of the hedging U.S. debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income (loss) from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2019.

### Financial Instruments

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. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

At December 31, 2019, the Company had committed to the following foreign exchange contracts:

#### Foreign exchange forward contracts not accounted for as hedges and fair valued through profit or loss

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 20,000	1.3131	1
Buy Mexican Peso	\$ 21,030	19.0200	1

The aggregate value of these forward contracts as at December 31, 2019 was a pre-tax gain of \$0.4 million and was recorded in trade and other receivables ((December 31, 2018 - gain of \$0.1 million and was recorded in trade and other receivables).

#### Foreign exchange forward contracts accounted for as hedges and fair valued through other comprehensive income

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 36,900	1.2780	36

The aggregate value of these forward contracts as at December 31, 2019 was a pre-tax loss of \$0.8 million and was recorded in trade and other payables (December 31, 2018 - loss of \$4.1 million and was recorded in trade and other payables).

### **INVESTMENTS**

The Company holds an investment in NanoXplore Inc. ("NanoXplore"), a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. NanoXplore is a manufacturer and supplier of high volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions under the heXo-G brand, including graphene powder, graphene plastic masterbatch pellets, and graphene-enhanced polymers. The company has its headquarters and graphene production facility in Montreal, Quebec.

As at December 31, 2018, the Company held 5,911,800 common shares and 2,955,900 warrants in NanoXplore. On January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of \$15.0 million through a private placement offering, increasing its holdings in NanoXplore to 17,449,800 common shares. Prior to January 11, 2019, the Company's investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income. Effective January 11, 2019, the Company's investment in NanoXplore is now being accounted for using the equity method.

Subsequent to January 11, 2019, on July 31, 2019, the Company exercised 2,750,000 of the outstanding warrants. The warrants had an exercise price of \$0.70 per share for total consideration paid of \$1.9 million. At the time of the exercise, the warrants, representing

derivative instruments fair valued at the end of each reporting period, had a fair value of \$2.0 million, which was transferred to the NanoXplore investment balance in addition to the consideration paid.

On September 9, 2019 the Company acquired an additional 10,000,000 common shares in NanoXplore pursuant to several private agreements. Of the 10,000,000 common shares, 5,474,669 were acquired at a price of \$1.20 per share for an aggregate purchase price of \$6.6 million and 4,525,331 of the common shares were acquired at a purchase price of \$1.30 per share for an aggregate purchase price of \$5.9 million. As at December 31, 2019, the Company held 30,199,800 common shares of NanoXplore representing an approximate 25% equity interest in the company (on a non-diluted basis).

	<b>Investment in common shares of NanoXplore</b>
Opening cost base of investment after January 11, 2019 private placement	\$ 22,685
Additions to investment including commissions	16,430
Share of loss for the period	(2,009)
Share of other comprehensive income for the period	(26)
Net balance as of December 31, 2019	\$ 37,080

The Company applies equity accounting to its investment based on NanoXplore's most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date which represents a reasonable estimate of the change in the Company's interest.

Upon transition to the equity accounting method of the Company's investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of \$4.3 million from other comprehensive income (loss) to retained earnings.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. As it relates to the warrants, a loss of \$0.3 million was recognized for the year ended December 31, 2019 (2018 - unrealized loss of \$1.9 million), recorded in other finance expense in the consolidated statement of operations. As at December 31, 2019, the remaining outstanding warrants had a fair value of \$0.01 million (2018 - \$2.2 million).

## Acquisitions

On December 19, 2019, the Company announced it reached an agreement to acquire the Structural Components for Passenger Cars operation of Metalsa S.A. de C.V. The transaction closed subsequent to the year-end on March 2, 2020. The purchase price, subject to certain adjustments post-closing, is expected to approximate U.S. dollar \$19.5 million in cash (\$25.5 million), inclusive of working capital and on a debt free basis.

The Structural Components for Passenger Cars operations specialize in a wide variety of metal forming technologies, including chassis components such as cradles, control arms, and trailing arms; body components such as side rails, A and B pillars, door beams, wheel housings and bumpers and several other components such as fuel tanks. The operations cover six plants located in Germany, the United States, Mexico, South Africa and two in China, with approximately 2,000 employees, as well as a leading edge technical and engineering centre in Germany.

At the time of issuance of this MD&A, the initial accounting for this acquisition was still in process.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company 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 Company’s disclosure controls and procedures was conducted as of December 31, 2019, based on the criteria set forth in the Internal Control-Integrated Framework (2013) 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 National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company 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 (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company’s management team used COSO to design the Company’s internal controls over financial reporting.

The CEO and CFO have caused an evaluation of the effectiveness of the Company’s internal controls over financial reporting as of December 31, 2019. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company’s business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity’s objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization’s disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in the Company’s internal controls over financial reporting during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company’s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The discussion below describes the Company’s significant policies and procedures for the year ended December 31, 2019.

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 reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions. In making and evaluating its estimates, management also considers economic conditions generally and in the automotive industry in particular, which have more recently been very different from historical patterns, as well as industry trends and the risks and uncertainties involved in its business that could materially affect the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. See “Automotive Industry Highlights and Trends” in the Company’s AIF and “Risks and Uncertainties” above.

Management believes that the accounting estimates discussed below are critical to the Company's business operations and an understanding of its results of operations or may involve additional management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

### **Impairment of Non-financial Assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value-in-use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the other assets in the unit.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal 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.

### **Income Tax Estimates**

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company is required to estimate the tax basis of assets and liabilities. The assessment for the recognition of a deferred tax asset requires significant judgment. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

At December 31, 2019, the Company had recorded a net deferred income tax asset in respect of pensions and other post-retirement benefits, loss carry-forwards and other temporary differences of \$83.7 million (2018 - \$61.0 million). Deferred tax assets in respect of loss carry-forwards relate to legal entities in Canada, the United States, Mexico and Europe. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that they can be utilized. Deferred tax assets

are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The factors used to assess the probability of realization are the Company's forecast of future taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred tax assets in order to avoid the potential loss of benefits.

### **Revenue Recognition**

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

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

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 overruns, non-reimbursable costs, change orders and potential price changes.

### **Employee Future Benefits**

The Company provides pensions and other 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 Note 14 to the Company's consolidated financial statements for the year ended December 31, 2019 the most significant of which are the discount rate, 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 which are recognized in other comprehensive income (loss) as they arise. 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.

### **Intangible Assets**

The Company's intangible assets are comprised of customer contracts and relationships acquired in acquisitions and development costs.

Customer contracts and relationships are amortized over their estimated economic life of up to 10 years on a straight line basis, which approximates a basis consistent with the contract value initially established upon acquisition.

Development costs are capitalized when the Company can demonstrate that:

- it has the intention and the technical and financial resources to complete the development;
- the intangible asset will generate future economic benefits; and
- the cost of the intangible asset can be measured reliably.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the consolidated statement of operations.

Expenditure on research activities, including costs of market research and new product prototyping during the marketing stage, is recognized in profit or loss when incurred.

## **RECENTLY ADOPTED ACCOUNTING STANDARDS AND POLICIES (INCLUDING ANY CHANGES TO CRITICAL ACCOUNTING ESTIMATES)**

### **IFRS 16, Leases (“IFRS 16”)**

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases (“IAS 17”) and IFRS Interpretation Committee interpretation 4, Determining whether an arrangement contains a lease (“IFRIC 4”). IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or short term in nature. A lessee is required to recognize, on its balance sheet, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on its consolidated balance sheet, as well as a decrease in operating rent expense, and increases in finance and depreciation expenses, as recognized in the consolidated statement of operations. The standard did not have a significant impact on the Company’s overall consolidated operating results.

The Company adopted IFRS 16, effective January 1, 2019, under the modified retrospective approach. Comparatives for 2018 were not restated. At adoption, the Company elected to use the practical expedient available under the standard that allows lease assessments made under IAS 17 and IFRIC 4 to be used for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified after January 1, 2019.

Upon initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rates as at January 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.2%. For leases previously classified as operating leases under IAS 17, the Company measured right-of-use assets equal to the corresponding lease liabilities adjusted for any accrued payments related to that lease. For leases previously classified as finance leases, the Company measured right-of-use assets and lease liabilities at the carrying amounts of the finance lease assets and liabilities immediately before the date of initial application.

As such, on January 1, 2019, the Company recorded lease liabilities of \$228,623 and right-of-use assets of \$223,786, net of accrued liabilities related to the leases of \$4,837, recognized in the consolidated balance sheet immediately before the date of initial application, with no net impact on retained earnings.

The Company elected to use the following practical expedients upon initial application in accordance with the provisions of IFRS 16

- a) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- b) Reliance on the Company’s assessment of whether leases are onerous under IAS 37;
- c) Accounting for all leases with a lease term that ends within 12 months of initial application in the same way as short-term leases;
- d) Exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application; and
- e) Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options.

On transition, the Company elected to use the recognition exemptions on short-term leases or low-value leases, however, in the future, may choose to elect the recognition exemptions on a class-by-class and lease-by-lease basis.

For leases of land and buildings, the Company elected to separate fixed non-lease components from lease components and account for each separately. For leases of manufacturing equipment and other assets, the Company elected to not separate fixed non-lease components from lease components and instead account for both as a single lease component.

The following table reconciles the Company’s operating lease commitments as at December 31, 2018, as previously disclosed in the Company’s annual audited consolidated financial statements for the year-ended December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

Operating lease commitments at December 31, 2018	\$	240,052
Operating lease commitments discounted using the related incremental borrowing rates as of January 1, 2019	\$	198,282
Finance lease liabilities recognized as of December 31, 2018	\$	(463)
Recognition exemption for:		
Short-term leases		(4,150)
Low value leases		(70)
Extension and termination options reasonably certain to be exercised		46,570
Leases starting after January 1, 2019		(11,546)
Lease liabilities recognized as of January 1, 2019	\$	228,623

Refer to note 2(t)(i) of the consolidated financial statements for the Company's new accounting policies to be used for accounting for leases under IFRS 16.

### **Selected Annual Information**

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2019, December 31, 2018 and December 31, 2017.

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Sales	\$ 3,863,659	\$ 3,662,900	\$ 3,690,499
Gross Margin	586,101	556,161	484,601
Operating Income	265,837	276,472	246,624
Net Income for the period	181,221	185,883	159,266
Net Income Attributable to Equity Holders of the Company	\$ 181,221	\$ 185,883	\$ 159,543
Net Earnings per Share - Basic	\$ 2.20	\$ 2.15	\$ 1.84
Net Earnings per Share - Diluted	\$ 2.19	\$ 2.14	\$ 1.84
<b>Non-IFRS Measures*</b>			
Adjusted Operating Income	\$ 288,305	\$ 283,981	\$ 236,807
% of sales	7.5%	7.8%	6.4%
Adjusted EBITDA	504,555	461,223	401,493
% of sales	13.1%	12.6%	10.9%
Adjusted Net Income Attributable to Equity Holders of the Company	\$ 187,687	\$ 193,166	\$ 165,519
Adjusted Net Earnings per Share - Basic	\$ 2.28	\$ 2.23	\$ 1.91
Adjusted Net Earnings per Share - Diluted	\$ 2.27	\$ 2.22	\$ 1.91
Total Assets	\$ 3,094,295	\$ 2,913,811	\$ 2,541,173
Cash and Cash Equivalents	\$ 118,973	\$ 70,162	\$ 71,193
Total Interest Bearing Debt	\$ 781,573	\$ 740,717	\$ 654,017
Dividends Declared	\$ 14,738	\$ 14,213	\$ 10,388

The year-over-year trends in the selected information above have been discussed previously in this MD&A, as well as the MD&A from December 31, 2018, including the unusual items in Table B under "Adjustments to Net Income".

### **\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS 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 financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt". Refer to page 2 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2019 and 2018 and the Company's MD&A for the year ended December 31, 2018, as previously filed and available at [www.sedar.com](http://www.sedar.com), for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2017.

## **FORWARD-LOOKING INFORMATION**

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to, or its views or beliefs in or on, the growth of the Company and pursuit of, and belief in, its strategies, the ramping up and launching of new programs, investments in its business and technologies, the opportunity to increase sales, the future amount and type of restructuring expenses to be expensed, the expected purchase price of the acquisition from Metalsa, the financing of future capital expenditures, the Company's views of the likelihood of tooling and component part supplier default, including under tooling guarantee programs, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity, capital resources and ability to deal with present economic conditions, growth of future sales or production volumes, the growth of the automotive market, volume levels, the effect of regulation on the demand for automobiles, the potential for future acquisitions or investments, the potential volatility of the Company's shares, the potential for fluctuation of operating results, the belief in compliance in Brazil tax legislation and its success in defending the claims, the ability of the funding and belief in the reduction of liability in pension plans, the impact of Coronavirus on the Company's business or that of its customers or suppliers, the Company's ability to deal with current economic conditions and prospects for the future including as a result of economic conditions or volume decline, or as a result of trade issues and the payment of dividends 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, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2019 and other public filings which can be found at [www.sedar.com](http://www.sedar.com):

- North American and global economic and political conditions and epidemics or pandemics;
- 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;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and 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 and commodities;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- product development and technological change;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources/uncertainty of future financing/banking;
- risks associated with the integration of acquisitions;
- risks associated with private or public investment in technology companies;
- the risks associated with joint ventures;
- costs associated with rationalization of production facilities;
- launch and operational costs;
- labour relations matters;
- trade restrictions;
- changes in governmental regulations or laws including any changes to trade;
- litigation and regulatory compliance and investigations;
- quote and pricing assumptions;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation and climate change;
- the impact of climate, political, social and economic risks, natural disasters and pandemics in the countries in which we operate or sell to, or from which we source production;

- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans;
- the cost of post-employment benefits;
- impairment charges;
- cybersecurity threats;
- the potential volatility of the Company's share price; and
- dividends.

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.



**MARTINREA INTERNATIONAL INC.  
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

# Martinrea International Inc.

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management's judgment. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2019 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, for overseeing management's performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. 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, multiple times a year to review, among other matters, accounting policies, any observations relating to internal controls over the financial reporting process that may be identified during the audit, as influenced by the nature, timing and extent of audit procedures performed, annual financial statements, the results of the external audit and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2019. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) *"Pat D'Eramo"*

(Signed) *"Fred Di Tosto"*

Pat D'Eramo

Fred Di Tosto

President & Chief Executive Officer

Chief Financial Officer



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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Martinrea International Inc.

### ***Opinion***

We have audited the consolidated financial statements of Martinrea International Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



*Martinrea International Inc.*  
*March 5, 2020*

***Emphasis of Matter – Change in Accounting Policy***

We draw attention to Note 2(t)(i) to the financial statements, which indicates that the Entity has changed its accounting policy for the impact of the adoption of IFRS 16 *Leases* and has applied that change using a modified retrospective approach.

Our opinion is not modified in respect of this matter.

***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in the Report to Shareholders filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis and the Report to Shareholders filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.



*Martinrea International Inc.*  
*March 5, 2020*

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



*Martinrea International Inc.*  
*March 5, 2020*

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is W. G. Andrew Smith.  
Vaughan, Canada  
March 5, 2020

# Martinrea International Inc.

## Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
Cash and cash equivalents		\$ 118,973	\$ 70,162
Trade and other receivables	3	560,976	597,796
Inventories	4	383,682	492,759
Prepaid expenses and deposits		25,846	23,275
Income taxes recoverable		16,783	21,301
<b>TOTAL CURRENT ASSETS</b>		<b>1,106,260</b>	<b>1,205,293</b>
Property, plant and equipment	5	1,541,895	1,481,452
Right-of-use assets	6	188,378	-
Deferred tax assets	15	165,890	145,354
Intangible assets	7	54,787	70,931
Investments	8	37,085	10,781
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,988,035</b>	<b>1,708,518</b>
<b>TOTAL ASSETS</b>		<b>\$ 3,094,295</b>	<b>\$ 2,913,811</b>
<b>LIABILITIES</b>			
Trade and other payables	10	\$ 728,787	\$ 862,699
Provisions	11	8,584	5,393
Income taxes payable		7,477	7,816
Current portion of long-term debt	12	15,651	16,804
Current portion of lease liabilities	13	28,247	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>788,746</b>	<b>892,712</b>
Long-term debt	12	765,922	723,913
Lease liabilities	13	174,105	-
Pension and other post-retirement benefits	14	63,789	61,267
Deferred tax liabilities	15	83,310	84,370
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,087,126</b>	<b>869,550</b>
<b>TOTAL LIABILITIES</b>		<b>1,875,872</b>	<b>1,762,262</b>
<b>EQUITY</b>			
Capital stock	16	661,422	680,157
Contributed surplus		42,449	42,016
Accumulated other comprehensive income		89,107	158,395
Retained earnings		425,445	270,981
<b>TOTAL EQUITY</b>		<b>1,218,423</b>	<b>1,151,549</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 3,094,295</b>	<b>\$ 2,913,811</b>

### Commitments and Contingencies (note 23)

### Subsequent Event (note 27)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Terry Lyons" Director

# Martinrea International Inc.

## Consolidated Statements of Operations

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

	Note	Year ended December 31, 2019	Year ended December 31, 2018
<b>SALES</b>		\$ 3,863,659	\$ 3,662,900
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(3,090,966)	(2,954,142)
Depreciation of property, plant and equipment and right-of-use assets (production)		(186,592)	(152,597)
Total cost of sales		(3,277,558)	(3,106,739)
<b>GROSS MARGIN</b>		586,101	556,161
Research and development costs	18	(38,035)	(26,564)
Selling, general and administrative		(239,683)	(232,313)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(14,729)	(10,701)
Amortization of customer contracts and relationships		(2,082)	(2,140)
Gain (loss) on disposal of property, plant and equipment		932	(462)
Impairment of assets	9	(18,502)	(5,436)
Restructuring costs	11	(8,165)	(2,073)
<b>OPERATING INCOME</b>		265,837	276,472
Share of loss of an associate	8	(2,009)	-
Finance expense	20	(37,997)	(27,358)
Other finance expense	20	(786)	(2,288)
<b>INCOME BEFORE INCOME TAXES</b>		225,045	246,826
Income tax expense	15	(43,824)	(60,943)
<b>NET INCOME FOR THE PERIOD</b>		\$ 181,221	\$ 185,883
Basic earnings per share	17	\$ 2.20	\$ 2.15
Diluted earnings per share	17	\$ 2.19	\$ 2.14

See accompanying notes to the consolidated financial statements.

**Martinrea International Inc.**  
**Consolidated Statements of Comprehensive Income**

(in thousands of Canadian dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
<b>NET INCOME FOR THE PERIOD</b>	\$ 181,221	\$ 185,883
<b>Other comprehensive income (loss), net of tax:</b>		
<b>Items that may be reclassified to net income</b>		
Foreign currency translation differences for foreign operations	(69,195)	72,610
Cash flow hedging derivative and non-derivative financial instruments:		
Unrealized gain (loss) in fair value of financial instruments	3,735	(6,036)
Reclassification of loss to net income	1,288	420
<b>Items that will not be reclassified to net income</b>		
Change in fair value of investments	(776)	(2,867)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 8)	(4,314)	-
Share of other comprehensive loss of an associate	(26)	-
Remeasurement of defined benefit plans	(3,781)	4,079
<b>Other comprehensive income (loss), net of tax</b>	<b>(73,069)</b>	<b>68,206</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 108,152</b>	<b>\$ 254,089</b>

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
<b>BALANCE AT DECEMBER 31, 2017</b>	\$ 713,425	\$ 41,981	\$ 94,268	\$ 108,825	\$ 958,499
Net income for the period	-	-	-	185,883	185,883
Compensation expense related to stock options	-	651	-	-	651
Dividends (\$0.165 per share)	-	-	-	(14,213)	(14,213)
Exercise of employee stock options	2,523	(616)	-	-	1,907
Repurchase of common shares	(17,699)	-	-	(7,814)	(25,513)
Estimated repurchase of common shares subsequent to year-end under an automatic share repurchase program with a broker	(18,092)	-	-	(5,779)	(23,871)
<b>Other comprehensive income (loss) net of tax</b>					
Remeasurement of defined benefit plans	-	-	-	4,079	4,079
Foreign currency translation differences	-	-	72,610	-	72,610
Change in fair value of investments	-	-	(2,867)	-	(2,867)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(6,036)	-	(6,036)
Reclassification of loss to net income	-	-	420	-	420
<b>BALANCE AT DECEMBER 31, 2018</b>	680,157	42,016	158,395	270,981	1,151,549
Net income for the period	-	-	-	181,221	181,221
Compensation expense related to stock options	-	1,195	-	-	1,195
Dividends (\$0.18 per share)	-	-	-	(14,738)	(14,738)
Exercise of employee stock options	2,681	(762)	-	-	1,919
Repurchase of common shares	(21,416)	-	-	(12,552)	(33,968)
<b>Other comprehensive income (loss) net of tax</b>					
Remeasurement of defined benefit plans	-	-	-	(3,781)	(3,781)
Foreign currency translation differences	-	-	(69,195)	-	(69,195)
Change in fair value of investments	-	-	(776)	-	(776)
Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 8)	-	-	(4,314)	4,314	-
Share of other comprehensive loss of an associate	-	-	(26)	-	(26)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	3,735	-	3,735
Reclassification of loss to net income	-	-	1,288	-	1,288
<b>BALANCE AT DECEMBER 31, 2019</b>	\$ 661,422	\$ 42,449	\$ 89,107	\$ 425,445	\$ 1,218,423

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES:</b>		
Net Income for the period	\$ 181,221	\$ 185,883
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	201,321	163,298
Amortization of customer contracts and relationships	2,082	2,140
Amortization of development costs	13,779	11,342
Impairment of assets (note 9)	18,502	5,436
Unrealized gain on foreign exchange forward contracts	(418)	(66)
Loss on warrants (note 8)	251	1,887
Finance expense (including interest on lease liabilities)	37,997	27,358
Income tax expense	43,824	60,943
Loss (gain) on disposal of property, plant and equipment	(932)	462
Deferred and restricted share units expense	8,224	2,454
Stock options expense	1,195	651
Share of loss of an associate	2,009	-
Pension and other post-retirement benefits expense	4,140	4,066
Contributions made to pension and other post-retirement benefits	(4,751)	(4,842)
	508,444	461,012
Changes in non-cash working capital items:		
Trade and other receivables	12,824	(7,550)
Inventories	70,085	(91,590)
Prepaid expenses and deposits	(3,700)	(6,964)
Trade, other payables and provisions	(80,492)	69,352
	507,161	424,260
Interest paid	(41,916)	(30,855)
Income taxes paid	(63,698)	(96,703)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 401,547</b>	<b>\$ 296,702</b>
<b>FINANCING ACTIVITIES:</b>		
Increase in long-term debt (net of addition to deferred financing fees)	91,449	114,496
Repayment of long-term debt	(30,575)	(57,710)
Principal payments of lease liabilities	(27,898)	-
Dividends paid	(14,943)	(12,999)
Exercise of employee stock options	1,919	1,907
Repurchase of common shares	(57,841)	(25,513)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (37,889)</b>	<b>\$ 20,181</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment (excluding capitalized interest)*	(284,011)	(309,049)
Capitalized development costs	(10,747)	(14,171)
Investment in NanoXplore Inc. (note 8)	(29,477)	(680)
Proceeds on disposal of property, plant and equipment	6,166	1,577
Upfront recovery of development costs incurred	5,563	2,566
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (312,506)</b>	<b>\$ (319,757)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(2,341)	1,843
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>48,811</b>	<b>(1,031)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>70,162</b>	<b>71,193</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 118,973</b>	<b>\$ 70,162</b>

\*As at December 31, 2019, \$49,120 (December 31, 2018 - \$45,341) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems.

### 1. BASIS OF PREPARATION

#### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended December 31, 2019 were approved by the Board of Directors on March 5, 2020.

#### (b) Presentation currency

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

#### (c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Estimates of the economic life of property, plant and equipment and intangible assets;
- Estimates involved in the measurement of lease liabilities and associated right-of-use-assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately priced tooling contracts: 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

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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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;

- Estimates used in determining the fair value of stock option and performance share unit grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options/units granted, where relevant; and
- Estimates used in determining the fair value of derivative instruments associated with investments in equity securities. These estimates include assumptions about the volatility of the investee's stock and expected life of the instrument.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgments made are disclosed in individual notes throughout the financial statements where relevant):

- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not;
- Accounting for development costs – judgment is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit;
- Judgments in determining the timing of revenue recognition for tooling sales;
- Judgments in determining whether sales contracts contain material rights; and
- The determination of the Company's cash-generating units ("CGU") for impairment testing.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

#### (ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

### (b) Foreign currency

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

#### (i) Foreign currency transactions

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

#### (ii) Translation of financial statements of foreign operations

The assets and liabilities of subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the Canadian

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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dollar are translated to Canadian dollars at the exchange rate prevailing on the date of transaction.

Foreign currency differences on translation are recognized in other comprehensive income in the cumulative translation account net of income tax.

### (c) Financial instruments

#### (i) Financial assets and liabilities

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification as described below:

Fair value through profit or loss (FVTPL):

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative instruments that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income:

This category includes the Company's investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income. When an investment is derecognized, the accumulated gain or loss in other comprehensive income is transferred to the consolidated statement of operations.

Amortized cost:

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:

This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

#### (ii) Impairment of financial assets

A forward-looking "expected credit loss" (ECL) model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

#### (iii) Derivative financial instruments not accounted for as hedges

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments, as well as derivative instruments associated with investments in equity securities, are classified as FVTPL, initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value being recognized immediately in the consolidated statement of operations.

#### (iv) Hedge accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

### *Cash flow hedges*

During the year ended December 31, 2018, the Company started hedging variability in cash flows of forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales in a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects net income (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in net income.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in net income.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net income, at the earlier of when the hedged item affects net income, or when the forecasted item is no longer expected to occur.

### *Net investment hedges*

The Company continues to use some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments in certain US operations.

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in income as and when the corresponding accumulated other comprehensive income (loss) from the hedged foreign operations is recognized in net income. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2019.

## **(d) Property, plant and equipment**

### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Certain tooling is produced or purchased specifically for the purpose of manufacturing parts for customer orders, which are either a) not sold to the customer, or b) paid for by the customer on delivery of each part, without the customer guaranteeing full financing of the costs incurred. In accordance with IAS 16, this tooling is recognized as property, plant and equipment. It is depreciated to match the lesser of estimated useful life and life of the program.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

### **(ii) Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

### (iii) Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each item of property, plant and equipment, since this period most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is recorded on the following bases and at the following rates:

	<b>Basis</b>	<b>Rate</b>
Buildings	Declining balance	4%
Leasehold improvements	Straight-line	Lesser of estimated useful life and lease term
Manufacturing equipment	Declining balance and straight-line	7% to 20%
Tooling and fixtures	Straight-line	Lesser of estimated useful life and life of program
Other	Declining balance and straight-line	20% to 30%

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

### (e) Intangible assets

The Company's intangible assets are composed of customer contracts acquired in previous acquisitions and development costs.

#### (i) Customer contracts and relationships

Customer contracts and relationships have a finite useful life and are amortized over their estimated economic life of up to 10 years on a straight-line basis, which is consistent with the contract value initially established upon acquisition.

#### (ii) Research and development

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if:

- the development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- the future economic benefits are probable, and
- the Company intends and has sufficient resources to complete the development and to use or sell the asset.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the consolidated statement of operations.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

### (f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity.

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Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of net realizable value.

### (g) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (h) Pensions and other post-retirement benefits

The Company's liability for pensions and other post-retirement benefits is based on valuations performed by independent actuaries using the projected unit credit method. These valuations incorporate both financial assumptions (discount rate, and changes in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The liability for pensions and other post-retirement benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in retained earnings through other comprehensive income.

### (i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time is recognized through profit and loss in other finance income (expense).

### (j) Revenue recognition

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and

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## Notes to the Consolidated Financial Statements

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tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

**(k) Finance expense**

Finance expense is comprised of interest expense on long-term debt and lease liabilities and amortization of deferred financing costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(l) Other finance income (expense)**

Other finance income (expense) comprises interest income on funds invested, unwinding of the discount on provisions, changes in the fair value of derivative financial instruments not accounted for as hedges and unrealized foreign exchange gains and losses reported on a net basis. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

**(m) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(n) Guarantees**

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 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 fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are remeasured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets* ("IAS 37") and (ii) the amount initially recognized less cumulative amortization.

**(o) Stock-based payments**

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 option awards to employees at the grant date using the Black-Scholes-Merton option valuation 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.

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**(p) Earnings per share**

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

**(q) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(r) Deferred Share Unit Plan**

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

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

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

**(s) Performance and Restricted Share Unit Plan**

On November 3, 2016, as subsequently amended, a Performance and Restricted Share Unit Plan (the "PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interests. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan) for cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

The fair value of PSUs and RSUs at the date of grant to the PRSU Plan participants, determined using the Monte Carlo Simulation model in the case of PSUs, are recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the RSUs and PSUs are fair valued at the end of every reporting period and at the settlement date. Any change in fair value of the liability is recognized as compensation expense in profit or loss.

**(t) Recently adopted accounting standards and policies**

**(i) IFRS 16, Leases ("IFRS 16")**

In January 2016, the IASB issued the final publication of IFRS 16, superseding IAS 17, Leases ("IAS 17") and IFRS Interpretations Committee interpretation 4, Determining whether an arrangement contains a lease ("IFRIC 4"). IFRS 16 introduced a single accounting model for lessees unless the underlying asset is of low value or short term in nature. A lessee is required to recognize, on its balance sheet, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on its consolidated balance sheet, as well as a decrease in operating rent expense, and increases in finance and depreciation expenses, as recognized in the consolidated statement of operations. The standard did not have a significant impact on the Company's overall consolidated operating results.

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The Company adopted IFRS 16, effective January 1, 2019, under the modified retrospective approach. Comparatives for 2018 were not restated. At adoption, the Company elected to use the practical expedient available under the standard that allows lease assessments made under IAS 17 and IFRIC 4 to be used for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified after January 1, 2019.

Upon initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rates as at January 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.2%. For leases previously classified as operating leases under IAS 17, the Company measured right-of-use assets equal to the corresponding lease liabilities adjusted for any accrued payments related to that lease. For leases previously classified as finance leases, the Company measured right-of-use assets and lease liabilities at the carrying amounts of the finance lease assets and liabilities immediately before the date of initial application.

As such, on January 1, 2019, the Company recorded lease liabilities of \$228,623 and right-of-use assets of \$223,786, net of accrued liabilities related to the leases of \$4,837, recognized in the consolidated balance sheet immediately before the date of initial application, with no net impact on retained earnings.

The Company elected to use the following practical expedients upon initial application in accordance with the provisions of IFRS 16

- (a) Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Reliance on the Company's assessment of whether leases are onerous under IAS 37, immediately before the date of initial application;
- (c) Accounting for all leases with a lease term that ends within 12 months of initial application in the same way as short-term leases;
- (d) Exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application; and
- (e) Use of hindsight in determining the lease term where the contract contains purchase, extension, or termination options.

On transition, the Company elected to use the recognition exemptions on short-term leases or low-value leases, however, in the future, may choose to elect the recognition exemptions on a class-by-class and lease-by-lease basis.

For leases of land and buildings, the Company elected to separate fixed non-lease components from lease components and account for each separately. For leases of manufacturing equipment and other assets, the Company elected to not separate fixed non-lease components from lease components and instead account for both as a single lease component.

The following table reconciles the Company's operating lease commitments as at December 31, 2018, as previously disclosed in the Company's annual audited consolidated financial statements for the year-ended December 31, 2018, to the lease liabilities recognized upon initial application of IFRS 16 on January 1, 2019.

Operating lease commitments at December 31, 2018	\$	240,052
Operating lease commitments discounted using the related incremental borrowing rates as of January 1, 2019	\$	198,282
Finance lease liabilities recognized as of December 31, 2018	\$	(463)
Recognition exemption for:		
Short-term leases		(4,150)
Low value leases		(70)
Extension and termination options reasonably certain to be exercised		46,570
Leases starting after January 1, 2019		(11,546)
Lease liabilities recognized as of January 1, 2019	\$	228,623

### New Lease Accounting Policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the contract: involves the use of an identified asset; provides the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and provides the right to direct the use of the asset.

This policy is applied to contracts entered into, or modified on or after January 1, 2019.

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A right-of-use asset and lease liability are recorded on the date that the underlying asset is available for use, representing the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that are tied to an index or rate defined in the contract;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably likely to exercise; and
- lease payments under an optional extension if the Company is reasonably certain to exercise the extension option, and early termination penalties required under a termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, consisting of:

- the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term consists of the non-cancellable period of the lease; periods covered by options to extend the lease, when the Company is reasonably certain to exercise the option to extend; and periods covered by options to terminate the lease, when the Company is reasonably certain not to exercise the option. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability as described above.

### *Short term and low-value leases*

The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases (i.e., those leases that have a lease term of twelve months or less) and leases with assets of low value (i.e., those assets with a fair market value of less than US\$5,000). The expenses associated with such leases are recognized in the consolidated statement of operations on a straight-line basis over the lease term.

### *Variable lease payments*

Certain leases contain provisions that result in changes to lease payments over the term in relation to market indices quoted in the contract. The Company reassesses the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payment.

Certain leases require the Company to make payments that relate to property taxes, insurance, or other non-rental costs. These costs are typically variable and are not included in the calculation of the right-of-use asset or lease liability, but are recorded as an expense in cost of sales in the consolidated statement of operations in the period in which they are incurred.

### **(ii) Investments in Associates and Joint Ventures**

Associates are entities over which the Company has significant influence, but not control, on financial and operating policy decisions. Significant influence is assumed when the Company holds 20% to 50% of the voting power of the investee, unless qualitative factors overcome this presumption. Similarly, significant influence is presumed not to exist when the Company holds less than 20% of the voting power of the investee, unless qualitative factors overcome this presumption.

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Entities over which the Company has significant influence are accounted for under the equity method. The investment is initially recognized at cost. The carrying amount is subsequently increased or decreased to recognize the Company's share of profits or losses of the associate after the date of acquisition or when significant influence begins. The Company's share of profits or losses is recognized in the consolidated statement of operations, and its share of other comprehensive income or loss of the associate is included in other comprehensive income or loss.

Unrealized gains on transactions between the Company and the associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in the level of the Company's equity interest in an associate are recognized in the consolidated statement of operations.

The amounts included in the financial statements of the associate are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

At the end of each reporting period, the Company assesses whether there is any objective evidence that its investment is impaired. If impaired, the carrying value of the Company's share of the underlying assets of the associate is written down to its estimated recoverable amount and charged to the consolidated statement of operations.

The Company has an equity interest in one associate, NanoXplore Inc., as further described in note 8.

### (I) **Recently issued accounting standards**

The IASB issued the following new standards and amendments to existing standards:

#### Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement, as well as the related standards on disclosures, IFRS 7, Financial Instruments: Disclosures. The amendments are effective from January 1, 2020. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by interest rate benchmark reform in the following areas:

- the 'highly' probable requirement,
- prospective assessments,
- retrospective assessments (for IAS 39), and
- eligibility of risk components.

The adoption of amendments to IFRS 9 and IAS 39 is not expected to have a material impact on the consolidated financial statements.

#### Amendments to IFRS 3, Business Combinations

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The adoption of the amendments to IFRS 3 is not expected to have a material impact on the consolidated financial statements.

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### 3. TRADE AND OTHER RECEIVABLES

	December 31, 2019		December 31, 2018	
Trade receivables	\$	542,409	\$	585,790
Other receivables		18,149		11,940
Foreign exchange forward contracts not accounted for as hedges (note 22(d))		418		66
	\$	560,976	\$	597,796

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 22.

### 4. INVENTORIES

	December 31, 2019		December 31, 2018	
Raw materials	\$	144,570	\$	173,123
Work in progress		41,976		39,591
Finished goods		38,956		37,761
Tooling work in progress and other inventory		158,180		242,284
	\$	383,682	\$	492,759

### 5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 130,272	\$ (23,203)	\$ 107,069	\$ 130,106	\$ (22,546)	\$ 107,560
Leasehold improvements	74,634	(45,243)	29,391	70,079	(41,238)	28,841
Manufacturing equipment	2,279,905	(1,158,116)	1,121,789	2,009,183	(1,086,324)	922,859
Tooling and fixtures	37,419	(32,287)	5,132	39,551	(33,091)	6,460
Other assets	66,732	(37,149)	29,583	63,807	(31,294)	32,513
Construction in progress	248,931	-	248,931	383,219	-	383,219
	\$ 2,837,893	\$ (1,295,998)	\$ 1,541,895	\$ 2,695,945	\$ (1,214,493)	\$ 1,481,452

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress	Total
Net as of December 31, 2017	\$ 100,997	\$ 26,203	\$ 849,350	\$ 7,475	\$ 28,404	\$ 270,195	\$ 1,282,624
Additions	8	140	-	-	66	290,299	290,513
Disposals	-	(5)	(1,326)	-	(25)	(683)	(2,039)
Depreciation	(4,026)	(4,220)	(146,798)	(1,773)	(6,481)	-	(163,298)
Impairment (note 9)	-	-	(5,436)	-	-	-	(5,436)
Transfers from construction in progress	3,868	5,786	176,593	306	9,444	(195,997)	-
Foreign currency translation adjustment	6,713	937	50,476	452	1,105	19,405	79,088
Net as of December 31, 2018	107,560	28,841	922,859	6,460	32,513	383,219	1,481,452
Additions	-	-	-	-	-	312,511	312,511
Disposals	(1,526)	(68)	(3,498)	-	(33)	(109)	(5,234)
Depreciation	(3,929)	(4,363)	(153,905)	(1,071)	(7,260)	-	(170,528)
Impairment (note 9)	-	(1,116)	(4,038)	-	(732)	(1,140)	(7,026)
Reclassification to right-of-use assets	-	-	(445)	-	-	-	(445)
Transfers from construction in progress	10,105	7,184	406,646	11	6,230	(430,176)	-
Foreign currency translation adjustment	(5,141)	(1,087)	(45,830)	(268)	(1,135)	(15,374)	(68,835)
Net as of December 31, 2019	\$ 107,069	\$ 29,391	\$ 1,121,789	\$ 5,132	\$ 29,583	\$ 248,931	\$ 1,541,895

Included in additions during the year ended December 31, 2019, are \$18,375 of long-term spare parts that were transferred to property, plant and equipment from other inventories based on revised estimates of useful lives.

### 6. RIGHT-OF-USE ASSETS

	December 31, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	\$ 201,944	\$ (29,991)	\$ 171,953
Leased manufacturing equipment	20,360	(5,460)	14,900
Leased other assets	2,552	(1,027)	1,525
	\$ 224,856	\$ (36,478)	\$ 188,378

Movement in right-of-use assets is summarized as follows:

	Leased buildings	Leased manufacturing equipment	Leased other assets	Total
Net as of December 31, 2018	\$ -	\$ -	\$ -	\$ -
Initial recognition of right-of-use assets upon transition to IFRS 16 (note 2(t)(i))	207,651	14,226	1,909	223,786
Reclassification from property, plant and equipment upon adoption of IFRS 16	-	445	-	445
Additions	372	6,311	608	7,291
Depreciation	(24,540)	(5,331)	(922)	(30,793)
Lease termination	(252)	(51)	-	(303)
Impairment (note 9)	(6,462)	-	(10)	(6,472)
Foreign currency translation adjustment	(4,816)	(700)	(60)	(5,576)
Net as of December 31, 2019	\$ 171,953	\$ 14,900	\$ 1,525	\$ 188,378

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### 7. INTANGIBLE ASSETS

	December 31, 2019			December 31, 2018		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 61,512	\$ (59,759)	\$ 1,753	\$ 62,497	\$ (58,498)	\$ 3,999
Development costs	148,945	(95,911)	53,034	160,008	(93,076)	66,932
	\$ 210,457	\$ (155,670)	\$ 54,787	\$ 222,505	\$ (151,574)	\$ 70,931

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2017	\$ 5,920	\$ 62,494	\$ 68,414
Additions	-	14,171	14,171
Amortization	(2,140)	(11,342)	(13,482)
Upfront recovery of development costs incurred	-	(2,566)	(2,566)
Foreign currency translation adjustment	219	4,175	4,394
Net as of December 31, 2018	3,999	66,932	70,931
Additions	-	10,747	10,747
Amortization	(2,082)	(13,779)	(15,861)
Impairment (note 9)	-	(2,487)	(2,487)
Upfront recovery of development costs incurred	-	(5,563)	(5,563)
Foreign currency translation adjustment	(164)	(2,816)	(2,980)
Net as of December 31, 2019	\$ 1,753	\$ 53,034	\$ 54,787

### 8. INVESTMENTS

	December 31, 2019	December 31, 2018
Investment in common shares of NanoXplore Inc.	\$ 37,080	\$ 8,572
Warrants in NanoXplore Inc.	5	2,209
	\$ 37,085	\$ 10,781

NanoXplore Inc. ("NanoXplore") is a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. It is a manufacturer and supplier of high volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions under the heXo-G brand, including graphene powder, graphene plastic masterbatch pellets, and graphene-enhanced polymers. The company has its headquarters and graphene production facility in Montreal, Quebec.

As at December 31, 2018, the Company held 5,911,800 common shares and 2,955,900 warrants in NanoXplore. On January 11, 2019, the Company acquired an additional 11,538,000 common shares in NanoXplore for a total of \$14,999 through a private placement offering, increasing its holdings in NanoXplore to 17,449,800 common shares. Prior to January 11, 2019, the Company's investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income. Effective January 11, 2019, the Company's investment in NanoXplore is now being accounted for using the equity method.

Subsequent to January 11, 2019, on July 31, 2019, the Company exercised 2,750,000 of the outstanding warrants. The warrants had an exercise price of \$0.70 per share for total consideration paid of \$1,925. At the time of the exercise, the warrants, representing derivative instruments fair valued at the end of each reporting period, had a fair value of \$1,952, which was transferred to the NanoXplore investment balance in addition to the consideration paid.

On September 9, 2019 the Company acquired an additional 10,000,000 common shares in NanoXplore pursuant to several private agreements. Of the 10,000,000 common shares, 5,474,669 were acquired at a price of \$1.20 per share for an aggregate purchase price of \$6,570 and 4,525,331 of the common shares were acquired at a purchase price of \$1.30 per share for an aggregate purchase price of \$5,883. As at December 31, 2019, the Company held 30,199,800 common shares of NanoXplore representing an approximate 25% equity interest in NanoXplore (on a non-diluted basis).

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

		Investment in common shares of NanoXplore
Opening cost base of investment after January 11, 2019 private placement	\$	22,685
Additions to investment including commissions		16,430
Share of loss for the period		(2,009)
Share of other comprehensive loss for the period		(26)
Net balance as of December 31, 2019	\$	37,080

The Company applies equity accounting to its investment based on NanoXplore's most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date which represents a reasonable estimate of the change in the Company's interest.

Upon transition to the equity accounting method of the Company's investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of \$4,314 from other comprehensive income to retained earnings.

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton option valuation model, with the change in fair value recorded through profit or loss. As it relates to the warrants, a loss of \$251 was recognized for the year ended December 31, 2019 (2018 - unrealized loss of \$1,887), recorded in other finance income (expense) in the consolidated statement of operations. As at December 31, 2019, the remaining outstanding warrants has a fair value of \$5 (2018 - \$2,209).

### 9. IMPAIRMENT OF ASSETS

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling \$18,502 related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration where specific assets can be transferred to other facilities.

During the fourth quarter of 2018, in conjunction with General Motors' ("GM") announcement that it would be closing its vehicle assembly facility in Oshawa, Ontario, the Company recorded an impairment charge on property, plant equipment totaling \$5,436 related to a facility in Ajax, Ontario (included in the North America operating segment) that the Company was forced to close because the operation was entirely dependent on GM's facility in Oshawa. The impairment charge was recorded where the carrying amount of the assets exceeded their estimated recoverable amounts.

		December 31, 2019		December 31, 2018
Property, plant and equipment	\$	(7,026)	\$	(5,436)
Right-of-use assets		(6,472)		-
Intangible Assets - Development costs		(2,487)		-
Inventories		(2,517)		-
Total Impairment	\$	(18,502)	\$	(5,436)

### 10. TRADE AND OTHER PAYABLES

		December 31, 2019		December 31, 2018
Trade accounts payable and accrued liabilities*	\$	728,000	\$	834,732
Estimated share repurchase liability		-		23,871
Foreign exchange forward contracts accounted for as hedges (note 22(d))		787		4,096
	\$	728,787	\$	862,699

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

\* Included in Trade accounts payable and accrued liabilities are contract liabilities related to advance consideration received from customers for tooling contracts, summarized below, for which revenue is recognized when the tool has been accepted by the customer.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

	<b>Contract Liabilities (Advance tooling consideration from Customers)</b>
Net as of December 31, 2017	\$ 18,500
Amount of opening balance recognized as tooling sales during the period	(17,258)
Advance cash consideration received during the period	105,513
Net as of December 31, 2018	\$ 106,755
Amount of opening balance recognized as tooling sales during the period	(103,735)
Advance cash consideration received during the period	15,579
Net as of December 31, 2019	\$ 18,599

### 11. PROVISIONS

	<b>Restructuring</b>	<b>Claims and Litigation</b>	<b>Total</b>
Net as of December 31, 2017	\$ 1,116	\$ 3,932	\$ 5,048
Net additions	2,073	2,046	4,119
Amounts used during the period	(1,116)	(2,453)	(3,569)
Foreign currency translation adjustment	-	(205)	(205)
Net as of December 31, 2018	2,073	3,320	5,393
Net additions	8,165	3,500	11,665
Amounts used during the period	(5,860)	(2,166)	(8,026)
Foreign currency translation adjustment	(164)	(284)	(448)
Net as of December 31, 2019	\$ 4,214	\$ 4,370	\$ 8,584

Based on estimated cash outflows, all provisions as at December 31, 2019 and December 31, 2018 are presented on the consolidated balance sheets as current liabilities.

#### (a) Restructuring

Additions to the restructuring provision in 2019 totaled \$8,165 and represent employee-related severance resulting from the rightsizing of operating facilities in Brazil (\$6,208), Canada (\$1,679) and China (\$278).

Additions to the restructuring accrual in 2018 totaled \$2,073 and represent employee-related severance payouts and lease termination costs resulting from the closure of the operating facility in Ajax, Ontario as described in note 9.

#### (b) Claims and litigation

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

Additions to the claims and litigation provision in 2019 totaled \$3,500, of which \$2,310 resulted from a true-up of the provision related to certain employee-related matters in the Company's operating facility in Brazil, recorded in the third quarter.

### 12. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 22.

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Banking facility	\$ 716,452	\$ 657,803
Equipment loans	65,121	82,914
	781,573	740,717
Current portion	(15,651)	(16,804)
	\$ 765,922	\$ 723,913

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Terms and conditions of outstanding loans, as at December 31, 2019, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	December 31, 2019 Carrying amount	December 31, 2018 Carrying amount
Banking facility	USD	LIBOR + 1.70%	2022	\$ 390,830	\$ 388,102
	CAD	BA + 1.70%	2022	325,622	269,701
Equipment loans	EUR	1.05%	2024	24,505	32,076
	CAD	3.80%	2022	23,594	31,334
	EUR	1.40%	2026	15,872	-
	EUR	1.36%	2021	858	1,544
	EUR	0.26%	2025	266	362
	BRL	5.00%	2020	26	76
	EUR	2.54%	2025	-	16,093
	EUR	3.35%	2019	-	966
	USD	3.80%	2022	-	463
				\$ 781,573	\$ 740,717

On July 23, 2018, the Company's banking facility was amended to extend its maturity date and enhance certain provisions of the facility. The primary terms of the amended banking facility, with now a syndicate of ten banks (up from nine), include the following:

- a move to an unsecured credit structure;
- improved financial covenants;
- available revolving credit lines of \$370 million and US \$420 million (up from \$350 million and US \$400 million, respectively);
- available asset based financing capacity of \$300 million (up from \$205 million);
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US \$200 million (up from US \$150 million);
- pricing terms at market rates and consistent with the previous facility;
- a maturity date of July 2022; and
- no mandatory principal repayment provisions.

As at December 31, 2019, the Company has drawn US\$301,000 (December 31, 2018 - US\$286,000) on the U.S. revolving credit line and \$328,000 (December 31, 2018 - \$273,000) on the Canadian revolving credit line. At December 31, 2019, the weighted average effective interest rate of the banking facility credit lines was 3.9% (December 31, 2018 - 3.7%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2019.

Deferred financing fees of \$2,378 (December 31, 2018 - \$3,299) have been netted against the carrying amount of the long-term debt.

On January 30, 2019, the Company finalized an equipment loan in the amount of €10,900 (\$16,602) repayable in monthly installments over six years starting in 2020 at a fixed annual interest rate of 1.40%.

On April 20, 2018, the Company finalized an equipment loan in the amount of €23,000 (\$36,886) repayable in monthly installments over six years at a fixed annual interest rate of 1.05%. The proceeds from the loan were used to pay-off loans, without penalty, at fixed annual interest rates of 3.06%, 4.34% and 4.93% that originally matured in 2024, 2025 and 2023, respectively.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Future annual minimum principal repayments as at December 31, 2019 are as follows:

	Scheduled principal repayments	Scheduled amortization of deferred financing fees	Carrying amount of outstanding loans
Within one year	\$ 16,572	\$ 921	\$ 15,651
One to two years	16,872	921	15,951
Two to three years	734,380	536	733,844
Three to four years	8,442	-	8,442
Thereafter	7,685	-	7,685
	\$ 783,951	\$ 2,378	\$ 781,573

Movement in long-term debt is summarized as follows:

	Total
Net as of December 31, 2017	\$ 654,017
Drawdowns	79,360
Equipment loan proceeds	36,886
Repayments	(57,710)
Deferred financing fee additions	(1,750)
Amortization of deferred financing fees	1,278
Foreign currency translation adjustment	28,636
Net as of December 31, 2018	\$ 740,717
Drawdowns	74,847
Loan proceeds	16,602
Repayments	(30,575)
Amortization of deferred financing fees	921
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16	(457)
Foreign currency translation adjustment	(20,482)
Net as of December 31, 2019	\$ 781,573

### 13. LEASE LIABILITIES

The Company enters into lease agreements for land and buildings, manufacturing equipment and other assets as a part of regular operations as a means of efficiently utilizing capital and managing the Company's cash flows.

Below is a summary of the activity related to the Company's lease liabilities for the year ended December 31, 2019:

	Total
Net as of December 31, 2018	\$ -
Initial recognition of lease liabilities upon transition to IFRS 16 (note 2(t)(i))	228,623
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16	457
Net additions	7,580
Principal payments of lease liabilities	(27,898)
Termination of leases	(309)
Foreign currency translation adjustment and other	(6,101)
Net as of December 31, 2019	\$ 202,352

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

The maturity of contractual undiscounted lease liabilities as at December 31, 2019 is as follows:

		<b>Total</b>
Within one year	\$	36,155
One to two years		33,909
Two to three years		30,935
Three to four years		29,788
Thereafter		109,394
Total undiscounted lease liabilities at December 31, 2019	\$	240,181
Interest on lease liabilities		(37,829)
Total present value of minimum lease payments	\$	202,352
Current portion		(28,247)
	\$	174,105

### 14. PENSIONS AND OTHER POST RETIREMENT BENEFITS

The Company has defined benefit and non-pension post-retirement benefit plans in Canada, the United States and Germany. The defined benefit plans provide pensions based on years of service, years of contributions and earnings. The post-retirement benefit plans provide for the reimbursement of certain medical costs.

The plans are governed by the pension laws of the jurisdiction in which they are registered. The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. Local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

The assets of the defined benefit pension plans are held in segregated accounts isolated from the Company's assets. The plans are administered pursuant to applicable regulations, investment policies and procedures and to the mandate of an established pension committee. The pension committee oversees the administration of the pension plans, which include the following principal areas:

- Overseeing the funding, administration, communication and investment management of the plans;
- Selecting and monitoring the performance of all third parties performing duties in respect of the plans, including audit, actuarial and investment management services;
- Proposing, considering and approving amendments to the defined benefit pension plans;
- Proposing, considering and approving amendments of the investment policies and procedures;
- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

The assets of the defined benefit pension plans are invested and managed following all applicable regulations and investment policies and procedures, and reflect the characteristics and asset mix of each defined benefit pension plan. Investment and market return risk is managed by:

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;
- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

The pension plans are exposed to market risks such as changes in interest rates, inflation and fluctuations in investment values. The plans are also exposed to non-financial risks in the nature of membership mortality, demographic changes and regulatory change.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

### Accrued benefit obligation:

	Other post-retirement benefits		December 31, 2019		Other post-retirement benefits		December 31, 2018					
		Pensions				Pensions						
Balance, beginning of the year	\$	(39,241)	\$	(69,264)	\$	(108,505)	\$	(44,621)	\$	(69,546)	\$	(114,167)
Benefits paid by the plan		1,426		2,871		4,297		1,543		2,090		3,633
Current service costs		(110)		(1,864)		(1,974)		(118)		(1,993)		(2,111)
Interest costs		(1,492)		(2,508)		(4,000)		(1,375)		(2,259)		(3,634)
Actuarial gains (losses) - experience		2,596		(670)		1,926		4,058		(160)		3,898
Actuarial gains (losses) - demographic assumptions		740		(156)		584		309		154		463
Actuarial gains (losses) - financial assumptions		(4,753)		(10,425)		(15,178)		2,344		4,884		7,228
Settlements and other payments		-		163		163		-		93		93
Foreign exchange translation		746		1,948		2,694		(1,381)		(2,527)		(3,908)
Balance, end of year	\$	(40,088)	\$	(79,905)	\$	(119,993)	\$	(39,241)	\$	(69,264)	\$	(108,505)

### Plan Assets:

	Other post-retirement benefits		December 31, 2019		Other post-retirement benefits		December 31, 2018					
		Pensions				Pensions						
Fair value, beginning of the year	\$	-	\$	47,238	\$	47,238	\$	-	\$	48,909	\$	48,909
Contributions paid into the plans		1,426		3,325		4,751		1,543		3,299		4,842
Benefits paid by the plans		(1,426)		(2,871)		(4,297)		(1,543)		(2,090)		(3,633)
Interest income		-		1,874		1,874		-		1,720		1,720
Administrative costs		-		(40)		(40)		-		(41)		(41)
Remeasurements, return on plan assets recognized in other comprehensive income		-		7,642		7,642		-		(6,188)		(6,188)
Foreign exchange translation		-		(964)		(964)		-		1,629		1,629
Fair value, end of year	\$	-	\$	56,204	\$	56,204	\$	-	\$	47,238	\$	47,238

<b>Accrued benefit liability, end of year</b>		<b>(40,088)</b>		<b>(23,701)</b>		<b>(63,789)</b>		<b>(39,241)</b>		<b>(22,026)</b>		<b>(61,267)</b>
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Pension benefit expense recognized in net income:

	Other post-retirement benefits		Year ended December 31, 2019		Other post-retirement benefits		Year ended December 31, 2018					
		Pensions				Pensions						
Current service costs	\$	110	\$	1,864	\$	1,974	\$	1,993	\$	2,111		
Net interest cost		1,492		634		2,126		1,375		539		
Administrative costs		-		40		40		-		41		
Net benefit plan expense	\$	1,602	\$	2,538	\$	4,140	\$	1,493	\$	2,573	\$	4,066

Amounts recognized in other comprehensive income (loss) (before income taxes):

	Year ended December 31, 2019		Year ended December 31, 2018	
Actuarial gains (losses)	\$	(5,026)	\$	5,401

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Plan assets are primarily composed of pooled funds that invest in fixed income and equities, common stocks and bonds that are actively traded. Plan assets are composed of:

Description	December 31, 2019	December 31, 2018
Equity	81.9%	83.0%
Debt securities	18.1%	17.0%
	100.0%	100.0%

As at December 31, 2019 all investments in the plan assets are at Level 2 on the fair value hierarchy.

The defined benefit obligation and plan assets are composed by country as follows:

	Year ended December 31, 2019				Year ended December 31, 2018			
	Canada	USA	Germany	Total	Canada	USA	Germany	Total
Present value of funded obligations	\$ (34,765)	\$ (31,510)	\$ -	\$ (66,275)	\$ (29,944)	\$ (28,428)	\$ -	\$ (58,372)
Fair value of plan assets	33,405	22,799	-	56,204	26,611	20,627	-	47,238
Funding status of funded obligations	(1,360)	(8,711)	-	(10,071)	(3,333)	(7,801)	-	(11,134)
Present value of unfunded obligations	(24,136)	(17,640)	(11,942)	(53,718)	(24,609)	(16,313)	(9,211)	(50,133)
Total funded status of obligations	\$ (25,496)	\$ (26,351)	\$ (11,942)	\$ (63,789)	\$ (27,942)	\$ (24,114)	\$ (9,211)	\$ (61,267)

There are significant assumptions made in the calculations provided by the actuaries and it is the responsibility of the Company to determine which assumptions could result in a significant impact when determining the accrued benefit obligations and pension expense.

Principal actuarial assumptions, expressed as weighted averages, are summarized below:

### Weighted average actuarial assumptions

	December 31, 2019	December 31, 2018
Defined benefit pension plans		
Discount rate used to calculate year end benefit obligation	2.8%	3.7%
Mortality table	CPM - RPP 2014 Priv	CPM - RPP 2014 Priv
Other post-employment benefit plans		
Discount rate to calculate year end benefit obligation	3.0%	3.9%
Mortality table	CPM - RPP 2014 Priv & Blue collar w/MP	CPM - RPP 2014 Priv & Blue collar w/MP
Health care trend rates		
Initial healthcare rate	5.5%	5.5%
Ultimate healthcare rate	4.2%	4.2%

### Sensitivity of Key Assumptions

In the sensitivity analysis shown below, the Company determines the defined benefit obligation using the same method used to calculate the defined benefit obligations recognized in the consolidated balance sheet. Sensitivity is calculated by changing one assumption while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption will change at a time, and that some assumptions are correlated.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

	Change in assumption	Impact on defined benefit obligation		Impact on defined benefit obligation	
		December 31, 2019		December 31, 2018	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>Pension Plans</b>					
Discount rate	0.50%	Decrease by 7.5%	Increase by 8.5%	Decrease by 7.1%	Increase by 8.0%
Life Expectancy	1 Year	Increase by 3.2%	Decrease by 3.3%	Increase by 3.0%	Decrease by 3.0%
<b>Other post-retirement benefits</b>					
Discount rate	0.50%	Decrease by 6.0%	Increase by 6.6%	Decrease by 5.8%	Increase by 6.3%
Medical costs	1 Year	Increase by 11.8%	Decrease by 9.8%	Increase by 10.1%	Decrease by 8.4%

### 15. INCOME TAXES

The components of income tax expense are as follows:

	Year ended		Year ended	
	December 31, 2019		December 31, 2018	
Current income tax expense	\$	(67,292)	\$	(58,520)
Deferred income tax recovery (expense)		23,468		(2,423)
Total income tax expense	\$	(43,824)	\$	(60,943)

Taxes on items recognized in other comprehensive income (loss) or directly in equity were as follows:

	Year ended		Year ended	
	December 31, 2019		December 31, 2018	
Deferred tax charge on:				
Employee benefit plan actuarial gains (losses)	\$	1,245	\$	(1,322)
Foreign currency items		124		(1,043)
	\$	1,369	\$	(2,365)

### Reconciliation of effective tax rate

The provision for income taxes differs from the result that would be obtained by applying statutory income tax rates to income before income taxes. The difference results from the following:

	Year ended		Year ended	
	December 31, 2019		December 31, 2018	
Income before income taxes	\$	225,045	\$	246,826
Tax at Statutory income tax rate of 26.5% (2018 - 26.5%)		59,637		65,409
Increase (decrease) in income taxes resulting from:				
Utilization of losses previously not benefited		(54)		(982)
Tax audit settlements and changes in estimates		(340)		(124)
Revaluations due to foreign exchange and inflation		(3,498)		3,161
Rate differences and deductions allowed in foreign jurisdictions		(3,405)		(3,184)
Current year tax losses not benefited and withholding tax expensed		6,261		4,468
Recognition of previously unrecognized deferred tax assets		(17,418)		(9,908)
Stock-based compensation and other non-deductible expenses		2,641		2,103
	\$	43,824	\$	60,943
Effective income tax rate applicable to income before income taxes		19.5%		24.7%

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## Notes to the Consolidated Financial Statements

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The movement of deferred tax assets are summarized below:

	Losses	Employee benefits	Interest and accruals	PPE and intangible assets	Other	Total
December 31, 2017	\$ 88,484	\$ 15,997	\$ 18,374	\$ 12,530	\$ 6,788	\$ 142,173
Benefit (charge) to income	(8,573)	136	4,161	(2,655)	750	(6,181)
Benefit (charge) to other comprehensive income	-	(1,322)	-	-	1,562	240
Translation and other items	6,227	1,400	1,529	347	(381)	9,122
December 31, 2018	86,138	16,211	24,064	10,222	8,719	145,354
Benefit (charge) to income	22,017	1,463	(4,482)	4,237	2,981	26,216
Benefit to other comprehensive income	-	1,245	-	-	(988)	257
Translation and other items	(3,621)	(411)	(934)	(705)	(266)	(5,937)
December 31, 2019	\$ 104,534	\$ 18,508	\$ 18,648	\$ 13,754	\$ 10,446	\$ 165,890

The movement of deferred tax liabilities are summarized below:

	PPE and intangible assets	Other	Total
December 31, 2017	\$ (75,682)	\$ (6,691)	\$ (82,373)
Benefit (charge) to income	4,967	(1,208)	3,759
Charge to other comprehensive income	-	(2,605)	(2,605)
Translation and other items	(3,754)	603	(3,151)
December 31, 2018	(74,469)	(9,901)	(84,370)
Charge to income	(2,461)	(287)	(2,748)
Benefit to other comprehensive income	-	1,112	1,112
Translation and other items	2,353	343	2,696
December 31, 2019	\$ (74,577)	\$ (8,733)	\$ (83,310)
Net deferred asset at December 31, 2018		\$	60,984
Net deferred asset at December 31, 2019		\$	82,580

The Company has accumulated approximately \$487,369 (December 31, 2018 - \$478,216) in non-capital losses that are available to reduce taxable income in future years. If unused these losses will expire as follows:

Year	
2023-2027	31,002
2028-2039	417,536
Indefinite	38,831
	\$ 487,369

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

Deferred tax assets include tax credits of \$5,936 (December 31, 2018 - \$5,576).

A deferred tax asset of \$51,127 in the United States (December 31, 2018 - \$49,948) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and consequently, it has been recognized.

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2019	December 31, 2018
Tax losses in foreign jurisdictions	\$ 21,800	\$ 40,128
Deductible temporary differences in foreign jurisdictions	3,313	2,740
Other capital items	188	188
	\$ 25,301	\$ 43,056

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Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect of the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately \$737,616 at December 31, 2019 (December 31, 2018 - \$640,546).

Future changes in tax law in any of the jurisdictions the Company has a presence in could significantly impact the Company's provision for income taxes, taxes payable, and deferred tax asset and liability balances.

### 16. CAPITAL STOCK

<b>Common shares outstanding:</b>	<b>Number</b>	<b>Amount</b>
Balance as of, December 31, 2017	86,745,834	\$ 713,425
Exercise of stock options	233,750	2,523
Repurchase of common shares under normal course issuer bid	(2,150,400)	(17,699)
Repurchase of common shares subsequent to year-end under an automatic share purchase program with a broker	(2,198,079)	(18,092)
Balance as of, December 31, 2018	82,631,105	\$ 680,157
Exercise of stock options	230,000	2,681
Repurchase of common shares under normal course issuer bid	(2,600,025)	(21,416)
Balance as of, December 31, 2019	80,261,080	\$ 661,422

The Company is authorized to issue an unlimited number of common shares. The Company's shares have no par value.

#### Repurchase of capital stock

During 2018, the Company received approval from the Toronto Stock Exchange ("TSX") to acquire for cancellation, by way of normal course issuer bid ("NCIB"), up to 4,348,479 common shares of the Company. The bid commenced on August 31, 2018 and spanned a 12-month period.

During 2018, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of \$25,513, resulting in a decrease to stated capital of \$17,699 and a decrease to retained earnings of \$7,814. The shares were purchased and cancelled directly under the NCIB.

At the end of 2018, the Company entered into an Automatic Share Purchase Program ("ASPP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares valued at \$23,871 under the ASPP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASPP for an aggregate purchase price of \$26,335, resulting in a decrease to stated capital of \$18,092 and a decrease to retained earnings of \$8,243. The shares were purchased and cancelled directly under the NCIB.

During the third quarter of 2019, the Company renewed the NCIB receiving approval from the Toronto Stock Exchange ("TSX") to acquire for cancellation up to an additional 8,000,000 common shares of the Company. The renewed bid commenced on August 31, 2019 and spans a 12-month period.

During the third and fourth quarters of 2019, the Company purchased for cancellation an aggregate of 2,600,025 common shares for an aggregate purchase price of \$31,506, resulting in a decrease to stated capital of \$21,416 and a decrease to retained earnings of \$10,088. The shares were purchased for cancellation directly under the NCIB.

#### Stock options

The Company has one stock option plan for key employees. Under the plan the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with the stock option plan and the policies of the Company. The options have a maximum term of 10 years and generally vest between zero and five years.

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,430,700	\$ 11.46	1,844,450	\$ 10.12
Granted during the period	870,000	14.60	820,000	13.54
Exercised during the period	(230,000)	8.34	(233,750)	8.16
Cancelled during the period	(60,000)	13.32	-	-
Balance, end of period	3,010,700	\$ 12.57	2,430,700	\$ 11.46
Options exercisable, end of period	1,974,700	\$ 11.55	1,635,700	\$ 10.49

The following is a summary of the issued and outstanding common share purchase options as at December 31, 2019:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$7.00 - 8.70	378,700	2010 - 2012	2020 - 2022
\$10.40 - 12.63	852,000	2012 - 2014	2022 - 2024
\$13.19 - 16.06	1,780,000	2015 - 2019	2025 - 2029
Total share purchase options	3,010,700		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes-Merton option valuation model. The Black-Scholes-Merton 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 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.

The key assumptions, on a weighted average basis, used in the valuation of options granted are shown in the table below:

	Year ended December 31, 2019	Year ended December 31, 2018
Expected volatility	33.24%	36.67%
Risk free interest rate	1.66%	2.19%
Expected life (years)	5.0	4.9
Dividend yield	1.23%	1.36%
Weighted average fair value of options granted	\$ 4.09	\$ 3.82

For the year ended December 31, 2019, the Company expensed \$1,195 (2018 - \$651) to reflect stock-based compensation expense as derived using the Black-Scholes-Merton option valuation model.

### Deferred Share Unit ("DSU") Plan

The following is a summary of the issued and outstanding DSUs:

	Year ended December 31, 2019	Year ended December 31, 2018
Outstanding, beginning of period	174,574	123,313
Granted and reinvested dividends	104,062	51,261
Redeemed	(32,522)	-
Outstanding, end of period	246,114	174,574

The DSUs granted during the years ended December 31, 2019 and 2018 had a weighted average fair value per unit of \$12.22 and \$13.27, respectively, on the date of grant. At December 31, 2019, the fair value of all outstanding DSUs amounted to \$2,741 (December 31, 2018 - \$1,806). For the year ended December 31, 2019, DSU compensation expense/benefit reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to an expense of \$1,269 (2018 - benefit of \$131), recorded in selling, general and administrative expense.

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Unrecognized DSU compensation expense as at December 31, 2019 was \$532 (December 31, 2018 - \$nil) and will be recognized in profit or loss over the next three years as the DSUs vest.

### Performance Restricted Share Unit ("PSU" and "RSU") Plan

The following is a summary of the issued and outstanding RSUs and PSUs for the year ended December 31, 2019 and 2018:

	RSUs	PSUs	Total
Outstanding, December 31, 2017	77,304	77,304	154,608
Granted and reinvested dividends	211,906	211,906	423,812
Redeemed	-	-	-
Outstanding, December 31, 2018	289,210	289,210	578,420
Granted and reinvested dividends	253,407	253,407	506,814
Redeemed	(77,304)	(77,304)	(154,608)
Cancelled	(13,498)	(14,500)	(27,998)
Outstanding, December 31, 2019	451,815	450,813	902,628

The RSUs and PSUs granted during the years ended December 31, 2019 and 2018 had a weighted average fair value per unit of \$12.25 and \$15.49, respectively, on the date of grant. For the year ended December 31, 2019, RSU and PSU compensation expense/benefit reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to an expense of \$6,955 (2018 - expense of \$2,585), recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at December 31, 2019 was \$5,835 (December 31, 2018 - \$2,868) and will be recognized in profit or loss over the next three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted are shown in the table below:

	Year ended December 31, 2019	Year ended December 31, 2018
Expected life (years)	2.35	2.49
Risk free interest rate	1.59%	2.05%

## 17. EARNINGS PER SHARE

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	82,486,531	\$ 2.20	86,548,599	\$ 2.15
Effect of dilutive securities:				
Stock options	152,140	(0.01)	439,416	(0.01)
Diluted	82,638,671	\$ 2.19	86,988,015	\$ 2.14

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

For the year ended December 31, 2019, 2,397,000 options (2018 - 100,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

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### 18. RESEARCH AND DEVELOPMENT COSTS

		Year ended December 31, 2019		Year ended December 31, 2018
Research and development costs, gross	\$	35,003	\$	29,393
Capitalized development costs		(10,747)		(14,171)
Amortization of capitalized development costs		13,779		11,342
Net expense	\$	38,035	\$	26,564

### 19. PERSONNEL EXPENSES

The consolidated statement of operations presents operating expenses by function. Operating expenses include the following personnel-related expenses:

	Note	Year ended December 31, 2019		Year ended December 31, 2018
Wages and salaries and other short-term employee benefits		\$ 916,385	\$	889,117
Expenses related to pension and post-retirement benefits	14	4,140		4,066
RSU and PSU compensation expense (including changes in fair value during the year)	16	6,955		2,585
DSU compensation expense (including changes in fair value during the year)	16	1,269		(131)
Stock-based compensation expense	16	1,195		651
		\$ 929,944	\$	896,288

### 20. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

		Year ended December 31, 2019		Year ended December 31, 2018
Debt interest, gross	\$	(36,041)	\$	(30,861)
Interest on lease liabilities		(8,302)		-
Capitalized interest - at an average rate of 4.0% (2018 - 3.3%)		6,346		3,503
Finance expense (including interest on lease liabilities)	\$	(37,997)	\$	(27,358)

		Year ended December 31, 2019		Year ended December 31, 2018
Net unrealized foreign exchange loss	\$	(1,109)	\$	(768)
Loss on warrants (note 8)		(251)		(1,887)
Other income, net		574		367
Other finance income (expense)	\$	(786)	\$	(2,288)

### 21. OPERATING SEGMENTS

The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

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

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated financial statements. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

Year ended December 31, 2019					
	Production Sales	Tooling Sales	Total Sales	Property, plant and equipment and Right-of-use assets	Operating Income
North America					
Canada	\$ 602,199	\$ 46,878	\$ 649,077	224,006	
USA	1,087,505	205,731	1,293,236	534,802	
Mexico	1,208,099	147,891	1,355,990	582,074	
Eliminations	(168,522)	(63,429)	(231,951)	-	
	\$ 2,729,281	\$ 337,071	\$ 3,066,352	\$ 1,340,882	\$ 227,145
Europe					
Germany	415,542	41,496	457,038	167,075	
Spain	152,698	10,099	162,797	135,197	
Slovakia	49,387	5,664	55,051	16,684	
Eliminations	-	(2,755)	(2,755)	-	
	617,627	54,504	672,131	318,956	44,875
Rest of the World	118,146	14,524	132,670	70,435	(6,183)
Eliminations	(6,167)	(1,327)	(7,494)	-	-
	\$ 3,458,887	\$ 404,772	\$ 3,863,659	\$ 1,730,273	\$ 265,837

Year ended December 31, 2018					
	Production Sales	Tooling Sales	Total Sales	Property, plant and equipment	Operating Income
North America					
Canada	\$ 622,576	\$ 96,129	\$ 718,705	160,325	
USA	1,186,013	106,568	1,292,581	480,016	
Mexico	982,086	94,331	1,076,417	483,013	
Eliminations	(163,162)	(97,014)	(260,176)	-	
	\$ 2,627,513	\$ 200,014	\$ 2,827,527	\$ 1,123,354	\$ 229,117
Europe					
Germany	460,115	34,038	494,153	152,738	
Spain	141,440	19,885	161,325	113,048	
Slovakia	53,301	6,269	59,570	14,186	
Eliminations	-	(1,187)	(1,187)	-	
	654,856	59,005	713,861	279,972	46,790
Rest of the World	121,112	14,210	135,322	78,126	565
Eliminations	(9,751)	(4,059)	(13,810)	-	-
	\$ 3,393,730	\$ 269,170	\$ 3,662,900	\$ 1,481,452	\$ 276,472

## 22. FINANCIAL INSTRUMENTS

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

### Fair Value

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

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

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

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 118,973	\$ 118,973	\$ -	\$ -
Warrants in NanoXplore (note 8)	\$ 5	\$ -	\$ 5	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 3)	\$ 418	\$ -	\$ 418	\$ -
Foreign exchange forward contracts accounted for as hedges (note 10)	\$ (787)	\$ -	\$ (787)	\$ -

  

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 70,162	\$ 70,162	\$ -	\$ -
Investments (note 8)	\$ 10,781	\$ 8,572	\$ 2,209	\$ -
Foreign exchange forward contracts not accounted for as hedges (note 3)	\$ 66	\$ -	\$ 66	\$ -
Foreign exchange forward contracts accounted for as hedges (note 10)	\$ (4,096)	\$ -	\$ (4,096)	\$ -

### Fair values versus carrying amounts

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

December 31, 2019	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>						
Trade and other receivables	\$ -	\$ -	\$ 560,558	\$ -	\$ 560,558	\$ 560,558
Warrants in NanoXplore (note 8)	5	-	-	-	5	5
Foreign exchange forward contracts not accounted for as hedges	418	-	-	-	418	418
	423	-	560,558	-	560,981	560,981
<b>FINANCIAL LIABILITIES:</b>						
Trade and other payables	-	-	-	(728,000)	(728,000)	(728,000)
Long-term debt	-	-	-	(781,573)	(781,573)	(781,573)
Foreign exchange forward contracts accounted for as hedges	-	(787)	-	-	(787)	(787)
	-	(787)	-	(1,509,573)	(1,510,360)	(1,510,360)
<b>Net financial assets (liabilities)</b>	<b>\$ 423</b>	<b>\$ (787)</b>	<b>\$ 560,558</b>	<b>\$ (1,509,573)</b>	<b>\$ (949,379)</b>	<b>\$ (949,379)</b>

December 31, 2018	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>						
Trade and other receivables	\$ -	\$ -	\$ 597,730	\$ -	\$ 597,730	\$ 597,730
Investments (note 8)	2,209	8,572	-	-	10,781	10,781
Foreign exchange forward contracts not accounted for as hedges	66	-	-	-	66	66
	2,275	8,572	597,730	-	608,577	608,577
<b>FINANCIAL LIABILITIES:</b>						
Trade and other payables	-	-	-	(834,732)	(834,732)	(834,732)
Estimated share repurchase liability	-	-	-	(23,871)	(23,871)	(23,871)
Long-term debt	-	-	-	(740,717)	(740,717)	(740,717)
Foreign exchange forward contracts accounted for as hedges	-	(4,096)	-	-	(4,096)	(4,096)
	-	(4,096)	-	(1,599,320)	(1,603,416)	(1,603,416)
<b>Net financial assets (liabilities)</b>	<b>\$ 2,275</b>	<b>\$ 4,476</b>	<b>\$ 597,730</b>	<b>\$ (1,599,320)</b>	<b>\$ (994,839)</b>	<b>\$ (994,839)</b>

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

### Risk Management

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

#### (a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 32.9%, 27.5%, and 14.8% of its production sales for the year ended December 31, 2019 (2018 - 29.5%, 28.0%, and 15.7%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at December 31, 2019 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 0.5% of total trade receivables for all periods and movements in the year were minimal.

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

	December 31, 2019	December 31, 2018
0-60 days	\$ 521,354	\$ 540,728
61-90 days	13,094	18,437
Greater than 90 days	7,961	26,625
	\$ 542,409	\$ 585,790

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At December 31, 2019, the Company had cash of \$118,973 (2018 - \$70,162) and banking facilities available as discussed in note 12. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

A summary of contractual maturities of long-term debt is provided in note 12.

#### (c) Interest rate risk

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

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

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

	Carrying amount	
	December 31, 2019	December 31, 2018
Variable rate instruments	\$ 716,452	\$ 657,803
Fixed rate instruments	65,121	82,914
	\$ 781,573	\$ 740,717

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$7,226 (December 31, 2018 - \$6,010) on the Company's consolidated financial results for the year ended December 31, 2019.

### (d) Currency risk

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

At December 31, 2019, the Company had committed to the following foreign exchange contracts:

#### Foreign exchange forward contracts not accounted for as hedges and fair valued through profit or loss

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 20,000	1.3131	1
Buy Mexican Peso	\$ 21,030	19.0200	1

The aggregate value of these forward contracts as at December 31, 2019 was a pre-tax gain of \$418 and was recorded in trade and other receivables (December 31, 2018 - pre-tax gain of \$66 recorded in trade and other receivables).

#### Foreign exchange forward contracts accounted for as hedges and fair valued through other comprehensive income

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 36,900	1.2780	36

The aggregate value of these forward contracts as at December 31, 2019 was a pre-tax loss of \$787 and was recorded in trade and other payables (December 31, 2018 - pre-tax loss of \$4,096 recorded in trade and other payables).

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

December 31, 2019	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 295,696	€ 60,033	\$ 58,203	R\$ 29,107	¥ 122,567
Trade and other payables	(351,949)	(91,126)	(258,786)	(27,642)	(118,925)
Long-term debt	(301,000)	(28,501)	-	(80)	-
	\$ (357,253)	€ (59,594)	\$ (200,583)	R\$ 1,385	¥ 3,642
December 31, 2018	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 297,895	€ 66,826	\$ 84,181	R\$ 26,348	¥ 89,887
Trade and other payables	(383,618)	(88,627)	(219,130)	(37,578)	(104,990)
Long-term debt	(286,341)	(32,787)	-	(218)	-
	\$ (372,064)	€ (54,588)	\$ (134,949)	R\$ (11,448)	¥ (15,103)

The following summary illustrates the fluctuations in the exchange rates applied:

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

	Average rate		Closing rate	
	Year ended December 31, 2019	Year ended December 31, 2018	December 31, 2019	December 31, 2018
USD	1.3292	1.2910	1.2984	1.3570
EURO	1.4913	1.5286	1.4561	1.5567
PESO	0.0687	0.0674	0.0686	0.0686
BRL	0.3392	0.3594	0.3230	0.3498
CNY	0.1928	0.1960	0.1864	0.1985

### Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10% strengthening of the Canadian dollar against the following currencies at December 31, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2019 by the amounts shown below, assuming all other variables remain constant:

	Year ended December 31, 2019	Year ended December 31, 2018
USD	\$ (14,697)	\$ (12,086)
EURO	(5,059)	(5,454)
BRL	600	304
CNY	883	31
	\$ (18,273)	\$ (17,205)

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

### (iii) Capital risk management

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

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

In addition to debt and equity the Company may use leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

## 23. COMMITMENTS AND CONTINGENCIES

### Commitments

The Company leases certain manufacturing facilities, manufacturing equipment, office equipment and vehicles under short-term leases and enters into purchase obligations in the normal course of business related to inventory, services, tooling and property, plant and equipment. The aggregate expected payments towards those obligations are as follows:

	December 31, 2019	December 31, 2018
Future minimum lease payments*	\$ 1,912	\$ 240,052
Capital and other purchase commitments (all due in less than one year)	348,768	369,928
	\$ 350,680	\$ 609,980

\*At December 31, 2019, these amounts relate to leases that did not meet the recognition criteria for lease liabilities under IFRS 16.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

Future minimum lease payments are due as follows:

	December 31, 2019		December 31, 2018	
Less than one year	\$	1,092	\$	39,601
Between one and five years		820		115,724
More than five years		-		84,727
	\$	1,912	\$	240,052

### Contingencies

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

### Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately \$66,977 (BRL \$207,353) including interest and penalties to December 31, 2019 (December 31, 2018 - \$74,319 or BRL \$212,462). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling \$27,555 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

## 24. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At December 31, 2019, the amount of the off-balance sheet program financing was \$22,212 (December 31, 2018 - \$58,871) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2018 or 2019. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.

# Martinrea International Inc.

## Notes to the Consolidated Financial Statements

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

### 25. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include the Directors and the most Senior Corporate Officers of the Company that are primarily responsible for planning, directing, and controlling the Company's business activities.

The compensation expense associated with key management for employee services was included in employee salaries and benefits as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
Salaries, pension and other short-term employee benefits	\$	14,397	\$	13,580
RSU, PSU and DSU compensation expense (including changes in fair value during the year)		6,244		1,665
Stock-based compensation expense		487		381
Net expense	\$	21,128	\$	15,626

### 26. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company as at December 31, 2019:

	Country of incorporation	Ownership interest
Martinrea Metallic Canada Inc.	Canada	100%
Martinrea Automotive Systems Canada Ltd.	Canada	100%
Martinrea Automotive Inc.	Canada	100%
Royal Automotive Group Ltd.	Canada	100%
Martinrea Metal Holdings (USA), Inc.	United States of America	100%
Martinrea Pilot Acquisition Inc.	Canada	100%
Martinrea Slovakia Fluid Systems S.R.O.	Slovakia	100%
Martinrea Pilot Acquisition II LLC	United States of America	100%
Martinrea Internacional de Mexico, S.A. de C.V.	Mexico	100%
Martinrea China Holdings Inc.	Canada	100%
Martinrea Honsel Holdings B.V.	Netherlands	100%
Martinrea Automotive Japan Inc.	Japan	100%
Agility Tooling Inc.	Canada	100%

### 27. SUBSEQUENT EVENT

On December 19, 2019, the Company announced it reached an agreement to acquire the Structural Components for Passenger Cars operation of Metalsa S.A. de C.V. The transaction closed subsequent to the year-end on March 2, 2020. The purchase price, subject to certain adjustments post-closing, is expected to approximate US\$19.5 million in cash (\$25.5 million), inclusive of working capital and on a debt free basis.

The Structural Components for Passenger Cars operations specialize in a wide variety of metal forming technologies, including chassis components such as cradles, control arms, and trailing arms; body components such as side rails, A and B pillars, door beams, wheel housings and bumpers; and several other components such as fuel tanks. The operations cover six plants located in Germany, the United States, Mexico, South Africa and two in China, with approximately 2,000 employees, as well as a leading edge technical and engineering centre in Germany.

At the time of issuance of these consolidated financial statements, the initial accounting for this acquisition was still in process.

# **CORPORATE INFORMATION**

## ***Corporate Head Office***

Martinrea International Inc.  
3210 Langstaff Road  
Vaughan, Ontario L4K 5B2  
E: [investor@martinrea.com](mailto:investor@martinrea.com)  
W: [www.martinrea.com](http://www.martinrea.com)

## ***Board of Directors***

Rob Wildeboer, Executive Chairman  
Martinrea International Inc.

Scott Balfour <sup>(1)</sup>  
President and Chief Executive Officer  
Emera Inc.

Pat D'Eramo  
President and Chief Executive Officer, Martinrea  
International Inc.

Roman Doroniuk <sup>(1)(2)</sup>  
Independent Consultant, Financial and Strategic Advisory  
Services

Terry Lyons <sup>(2),(3)</sup>  
Corporate Director and Lead Director, Canaccord Genuity  
Group Inc.

Fred Olson <sup>(1),(2),(3),(4)</sup>  
Retired, President and CEO, Webasto Product North  
America

Sandra Papatello <sup>(3)</sup>  
President, Canadian International Avenues Ltd.

Dave Schoch <sup>(2)</sup>  
Retired, Group Vice President and President, Asia Pacific,  
and Chairman and Chief Executive Officer, Ford China

Molly Shoichet  
University Professor and Canada Research Chair, Tissue  
Engineering, Chemical Engineering & Applied Chemistry,  
University of Toronto

(1) Member, Human Resources and Compensation Committee

(2) Member, Audit Committee

(3) Member, Corporate Governance and Nominating Committee

(4) Lead Director

## ***Corporate Executive Officers***

Pat D'Eramo, President and Chief Executive Officer  
Rob Wildeboer, Executive Chairman  
Fred Di Tosto, Chief Financial Officer  
Armando Pagliari, Executive VP, Human Resources

## ***Certificate Transfer and Address Change***

Computershare Investor Services Inc.  
100 University Avenue, 9<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1  
T: 1 800 564-6523/1 514 982-7555  
F: 1 866 249-7775  
E: [service@computershare.com](mailto:service@computershare.com)

## ***Registrar and Transfer Agent***

Computershare Investor Services Inc.  
100 University Avenue, 9<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1  
T: 1 800 564-6523/1 514 982-7555  
F: 1 866 249-7775  
E: [service@computershare.com](mailto:service@computershare.com)

## ***Shareholder Inquiries/Investor Relations***

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## ***Media Inquiries***

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T: 248-392-9767

## ***Auditors***

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100 New Park Place  
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Vaughan, Ontario L4K 0J3  
T: 905-265-5900  
F: 905-265-6390

## ***Stock Listing***

The Toronto Stock Exchange (TSX: MRE)



## **MARTINREA INTERNATIONAL INC.**

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